Chapter 12 INFLATION*

Inflation and the Price Level

Topic: Inflation and the Price Level
Skill: Recognition

1) Inflation is defined as a continuing increase in
   A) the prices of specific products.
   B) the wages of all workers.
   C) the price level.
   D) money GDP.

Answer: C

Topic: Inflation and the Price Level
Skill: Recognition

2) If this year's price level exceeds last year's,
   A) the inflation rate between these years has been positive.
   B) the inflation rate is accelerating.
   C) deflation is occurring.
   D) no relative price changes are occurring.

Answer: A

Topic: Inflation and the Price Level
Skill: Recognition

3) When an economy experiences inflation the
   A) price level rises persistently.
   B) quantity of money is growing.
   C) value of money gets smaller and smaller.
   D) All of the above answers are correct.

Answer: D

Topic: Inflation and the Price Level
Skill: Recognition

4) Inflation can be described as
   A) a stock variable.
   B) a flow variable.
   C) an ongoing process of price level increases.
   D) an excess demand for money.

Answer: C

Topic: Inflation and the Price Level
Skill: Conceptual

5) If the price level for the last three months has been 112, 125, and 126, we would say
   A) inflation has been constant over the three months.
   B) inflation was more rapid between the first and second month than between the second and third month.
   C) inflation was less rapid between the first and second month than between the second and third month.
   D) inflation has steadily increased over the three months.

Answer: B

Topic: Inflation Rate
Skill: Analytical

6) If the price level for 2003 is 220 and for 2004 is 250, what is the rate of inflation between the two years?
   A) 30 percent
   B) 13.6 percent
   C) 12.2 percent
   D) 20 percent

Answer: B

Topic: Inflation Rate
Skill: Analytical

7) If this year the price level is 135 and last year it was 125, the inflation rate is
   A) 8 percent
   B) 10 percent
   C) 12 percent
   D) none of the above

Answer: A

* This is Chapter 28 in *Economics*.

Topic: Inflation Rate
Skill: Analytical

8) Suppose the price level this year is 150 and the price level last year was 125. The inflation rate between last year and this year was

A) 20 percent.
B) 2 percent.
C) 16.6 percent.
D) 1.6 percent.

Answer: A

Topic: Inflation Rate
Skill: Analytical

9) Suppose that last year the Consumer Price Index was 124; this year it is 130.7. What was the inflation rate between these years?

A) 30.7 percent
B) 6.7 percent
C) 5.4 percent
D) 5.1 percent

Answer: C

Topic: Inflation Rate
Skill: Analytical

10) Last year's price level was 120 and since then there has been a 5 percent inflation. This year's price level is

A) 125.
B) 126.
C) 130.
D) none of the above

Answer: B

Topic: Inflation and the Price Level
Skill: Analytical

11) Suppose that the price level was 100 in 2002, 110 in 2003, and 130 in 2004. Over these three years,

A) deflation occurred at an accelerating rate.
B) the inflation rate was positive but slowing.
C) prices were stable.
D) the inflation rate was positive and accelerating.

Answer: D

Topic: Inflation and the Price Level
Skill: Analytical

12) Suppose that the price level was 100 in 2001, 110 in 2002, 120 in 2003, and 130 in 2004. Over these three years,

A) the inflation rate accelerated.
B) inflation did not occur.
C) prices were stable.
D) the inflation rate was positive.

Answer: D

■ Demand-Pull Inflation

Topic: Initial Effect of an Increase in Aggregate Demand
Skill: Conceptual

13) Demand-pull inflation starts with a(n)

A) increase in aggregate demand.
B) decrease in aggregate demand.
C) increase in short-run aggregate supply.
D) decrease in short-run aggregate supply.

Answer: A

Topic: Initial Effect of an Increase in Aggregate Demand
Skill: Conceptual

14) Demand-pull inflation starts as the

A) *LAS* curve shifts leftward.
B) *LAS* curve shifts rightward.
C) *AD* curve shifts rightward.
D) *AD* curve shifts leftward.

Answer: C

Topic: Initial Effect of an Increase in Aggregate Demand
Skill: Conceptual

15) Demand pull inflation starts with

A) a decrease in aggregate demand.
B) an increase in aggregate demand.
C) a decrease in aggregate supply.
D) an increase in aggregate supply.

Answer: B

Topic: Initial Effect of an Increase in Aggregate Demand
Skill: Recognition

16) Which of the following could lead to demand-pull inflation?
A) An increase in the money wage rate.
B) An increase in the quantity of money.
C) A decrease in exports.
D) An increase in oil prices.

Answer: B

Topic: Initial Effect of an Increase in Aggregate Demand
Skill: Conceptual

17) Which of the following could start a demand-pull inflation?
A) There is an increase in the quantity of money.
B) There is an increase in government expenditures.
C) There is an increase in exports.
D) All of the above could be initial causes of demand-pull inflation.

Answer: D

Topic: Initial Effect of an Increase in Aggregate Demand
Skill: Conceptual

18) Which of the following could start a demand-pull inflation?
A) An increase in government purchases.
B) An increase in imports.
C) A decrease in the quantity of money.
D) An increase in the money prices of raw materials.

Answer: A

Topic: Initial Effect of an Increase in Aggregate Demand
Skill: Recognition

19) Increases in the quantity of money can start a
A) demand-pull inflation, as can increases in government purchases.
B) demand-pull inflation, whereas increases in government purchases can start only a cost-push inflation.
C) cost-push inflation, as can increases in government purchases.
D) cost-push inflation, whereas increases in government purchases can start a demand-pull inflation.

Answer: A

Topic: Initial Effect of an Increase in Aggregate Demand
Skill: Conceptual

20) Which of the following could start a demand-pull inflation?
A) There is an improvement in technology.
B) There is a decrease in productivity.
C) There is an increase in imports.
D) None of the above could be the initial cause of demand-pull inflation.

Answer: D

Topic: Initial Effect of an Increase in Aggregate Demand
Skill: Recognition

21) Demand-pull inflation could start with
A) increases in government purchases followed by increases in money wage rates.
B) expansionary monetary policy followed by decreases in the money wage rate.
C) rises in prices of raw materials followed by expansionary monetary policy.
D) simultaneous expansionary aggregate demand and aggregate supply shifts.

Answer: A

Topic: Initial Effect of an Increase in Aggregate Demand
Skill: Recognition

22) Which of the following is <u>NOT</u> a potential start of a demand-pull inflation?
A) An increase in the money wage rate.
B) An increase in the quantity of money.
C) An increase in government spending.
D) An increase in exports.

Answer: A

Topic: Initial Effect of an Increase in Aggregate Demand
Skill: Recognition

23) Which of the following is <u>NOT</u> a potential start of a demand-pull inflation?
A) an increase in the money supply
B) an increase in government spending
C) an increase in taxes
D) an increase in exports

Answer: C

Topic: Initial Effect of an Increase in Aggregate Demand
Skill: Conceptual

24) Which of the following is a change that would NOT begin a demand-pull inflation?

A) An increase in exports.
B) An increase in labor productivity.
C) An increase in government purchases of goods and services.
D) An increase in the quantity of money.

Answer: B

Topic: Initial Effect of an Increase in Aggregate Demand
Skill: Conceptual

25) Initially, demand-pull inflation will

A) increase the price level but not real GDP.
B) increase both the price level and real GDP.
C) increase the price level, but decrease real GDP.
D) shift the aggregate supply curve rightward.

Answer: B

Topic: Initial Effect of an Increase in Aggregate Demand
Skill: Analytical

26) An initial increase in aggregate demand that is NOT followed by an increase in the quantity of money results in a long-run equilibrium with

A) a higher price level but the same real GDP.
B) a higher price level and an increased level of real GDP.
C) the same price level and a lower level of real GDP.
D) None of the above answers are correct.

Answer: A

Topic: Initial Effect of an Increase in Aggregate Demand
Skill: Conceptual

27) Which of the following could NOT start a demand-pull inflation?

A) Increases in government purchases.
B) Increases in net exports.
C) Increases in oil prices.
D) Increases in the quantity of money.

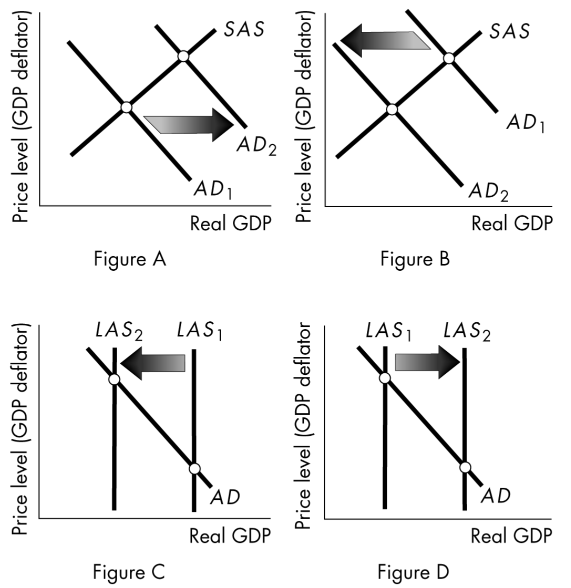
Answer: C

Topic: Initial Effect of an Increase in Aggregate Demand
Skill: Conceptual

28) A demand-pull inflation initially is characterized by

A) increasing real output and a labor shortage.
B) increasing real output and a labor surplus.
C) decreasing real output and a labor shortage.
D) decreasing real output and a labor surplus.

Answer: A



Topic: Initial Effect of an Increase in Aggregate Demand
Skill: Analytical

29) Which of the above figures best shows the start of a demand-pull inflation?

A) Figure A.
B) Figure B.
C) Figure C.
D) Figure D.

Answer: A

Topic: A Demand-Pull Inflation Process
Skill: Conceptual

30) A demand-pull inflation can be described as ____ shifts in the *AD* curve and ____ shifts in the *SAS* curve.
A) rightward; rightward
B) rightward; leftward
C) leftward; rightward
D) leftward; leftward
Answer: B

Topic: A Demand-Pull Inflation Process
Skill: Conceptual

31) A demand-pull inflation spiral results when
A) aggregate demand increases and the economy corrects the resulting inflationary gap, but aggregate demand continues to increase because the Federal Reserve continues to increase the quantity of money.
B) the economy experiences a one-time jump in the price level.
C) aggregate demand increases, the Federal Reserve does not increase the quantity of money, and so the economy corrects the resulting inflationary gap on its own.
D) aggregate supply decreases, the Federal Reserve corrects the resulting recessionary gap by increasing the quantity of money and the supply shocks then stop.
Answer: A

Topic: A Demand-Pull Inflation Process
Skill: Analytical

32) For an economy at full employment, an increase in the quantity of money will lead to which of the following sequences of shifts in aggregate demand and supply curves?
A) Decreased aggregate demand, increased short-run aggregate supply, constant long-run aggregate supply.
B) Decreased aggregate demand, decreased short-run aggregate supply, decreased long-run aggregate supply.
C) Increased aggregate demand, increased short-run aggregate supply, increased long-run aggregate supply.
D) Increased aggregate demand, decreased short-run aggregate supply, constant long-run aggregate supply.
Answer: D

Topic: A Demand-Pull Inflation Process
Skill: Conceptual

33) In a persisting demand-pull inflation
A) short-run aggregate supply decreases and aggregate demand increases.
B) aggregate demand and short-run aggregate supply both decrease.
C) aggregate demand increases and long-run aggregate supply decreases.
D) None of the above answers are correct.
Answer: A

Topic: A Demand-Pull Inflation Process
Skill: Conceptual

34) Demand-pull inflation results from continually increasing the quantity of money, which leads to a continually
A) decreasing long-run aggregate supply.
B) increasing aggregate supply.
C) decreasing aggregate demand.
D) increasing aggregate demand.
Answer: D

Topic: A Demand-Pull Inflation Process
Skill: Conceptual

35) Demand-pull inflation persists because of
A) continuing increases in government purchases.
B) continuing increases in the quantity of money.
C) continuing increases in real wage rates.
D) continuing increases in aggregate supply.
Answer: B

Topic: A Demand-Pull Inflation Process
Skill: Conceptual

36) A demand-pull inflation requires persistent increases in
A) tax rates.
B) real wages.
C) the quantity of money.
D) government purchases.
Answer: C

Topic: A Demand-Pull Inflation Process
Skill: Conceptual

37) If the Fed responds to an initial increase in aggregate demand by increasing the quantity of money,
A) there will be no inflationary gap.
B) output will begin to decrease more rapidly than if the quantity of money had remained constant.
C) money wages will fall to reduce the unemployment.
D) there is the risk of continued inflation.
Answer: D

Topic: A Demand-Pull Inflation Process
Skill: Conceptual

38) In a demand-pull inflation brought about by increases in the quantity of money, real GDP might increase at times because
A) tax rates decline.
B) real wages fall.
C) money wages fall.
D) real wages rise.
Answer: B

Topic: A Demand-Pull Inflation Process
Skill: Conceptual

39) During a demand-pull inflation, if the Fed tries to maintain a level of real GDP above potential GDP,
A) there will be a one-time shift in the *AD* and the *SAS* curves.
B) the *AD* curve will shift rightward continuously and *SAS* curves will shift leftward continuously.
C) the *AD* curve will shift rightward continuously and the *SAS* curve will not shift.
D) the *SAS* curve will shift leftward continuously and the *AD* curve will not shift.
Answer: B

Topic: A Demand-Pull Inflation Process
Skill: Conceptual

40) In a demand-pull inflation, money wage rates rise because
A) a decrease in aggregate demand creates a labor shortage.
B) an increase in aggregate demand creates a labor surplus.
C) an increase in aggregate demand creates a labor shortage.
D) a decrease in aggregate demand creates a labor surplus.
Answer: C

Topic: A Demand-Pull Inflation Process
Skill: Conceptual

41) As the money wage rate increases
A) the long-run aggregate supply curve shifts rightward.
B) the short-run aggregate supply curve shifts rightward.
C) both the long-run aggregate supply curve and the short-run aggregate supply curve shift leftward.
D) the short-run aggregate supply curve shifts leftward.
Answer: D

Topic: A Demand-Pull Inflation Process
Skill: Conceptual

42) When the *AD* and *SAS* curves intersect at a level of real GDP which exceeds potential GDP, which of the following will occur?
A) The *AD* curve shifts rightward because the Fed decreases the money supply.
B) The *AS* curve shifts leftward because the money wage rate rises.
C) The *AS* curve shifts leftward because the money wage rate falls.
D) The *AD* curve shifts leftward because the money wage rate rises.
Answer: B

Topic: A Demand-Pull Inflation Process
Skill: Conceptual

43) To prevent demand-pull inflation
A) firms must refuse to increase wages.
B) the Fed must not let the quantity of money persistently rise.
C) the natural rate of unemployment must increase.
D) real GDP must increase.
Answer: B

Topic: A Demand-Pull Inflation Process
Skill: Analytical

44) To stop a demand-pull inflation using monetary policy, you would
A) recommend that the Fed increase the quantity of money.
B) recommend that the Fed not increase the quantity of money.
C) recommend that the Fed increase tax rates.
D) recommend that the Fed purchase government bonds in the open market.
Answer: B

Topic: A Demand-Pull Inflation Process
Skill: Conceptual

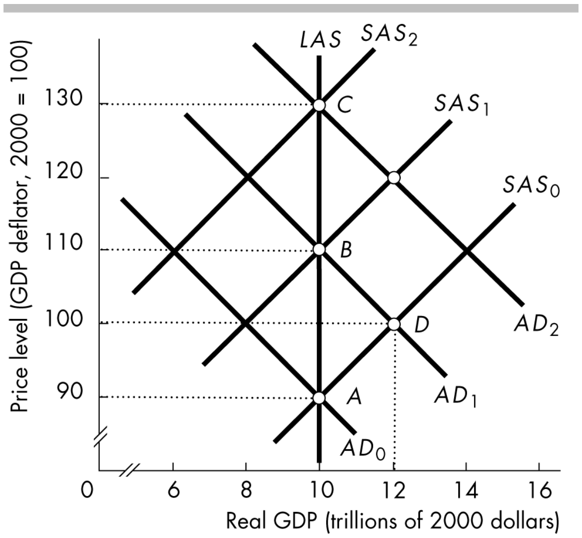
45) In a demand-pull inflation, if the Fed stops expanding the quantity of money,
 A) a cost-push inflation will occur.
 B) government purchases will cause the demand-pull inflation to continue.
 C) a deflation will occur.
 D) the demand-pull inflation ends.

Answer: D

Topic: A Demand-Pull Inflation Process
Skill: Conceptual

46) Which monetary policy can be used to reduce demand-pull inflation?
 A) decrease in taxes.
 B) increase in the required reserve ratio.
 C) decrease in the required reserve ratio.
 D) increase in government spending.

Answer: B



Topic: Demand-Pull Inflation
Skill: Conceptual

47) In the above figure, the economy initially is at point *A* and then increases in the quantity of money move the economy to point *B* the next year and *C* the year after. The economy has had a
 A) positive and increasing rate of inflation.
 B) positive and constant rate of inflation.
 C) one-time increase in the price level.
 D) positive and decreasing rate of inflation.

Answer: D

Topic: Initial Effect of an Increase in Aggregate Demand
Skill: Conceptual

48) In the above figure, the economy initially is at point *A* and then an increase in the quantity of money moves the economy to point *D*. At point *D*, the real wage rate has
 A) risen by the same percentage as the price level.
 B) remained constant.
 C) increased.
 D) decreased.

Answer: D

Topic: Wage Response
Skill: Conceptual

49) In the above figure, the economy initially is at point *A* and then an increase in the quantity of money moves the economy to point *D*. The money wage rate will
 A) rise because a labor shortage now exists.
 B) fall because a labor shortage now exists.
 C) rise because a labor surplus now exists.
 D) fall because a labor surplus now exists.

Answer: A

Topic: A Demand-Pull Inflation Process
Skill: Conceptual

50) In the above figure, the economy initially is at point *A* and then an increase in the quantity of money moves the economy to point *D*. If the quantity of money remains constant, the economy will adjust with
 A) short-run aggregate supply shifting leftward to SAS_1.
 B) short-run aggregate supply shifting leftward to SAS_2.
 C) aggregate demand shifting back to AD_0.
 D) aggregate demand shifting to AD_2.

Answer: A

Topic: Demand-Pull Inflation in the United States
Skill: Recognition

51) A demand-pull inflation occurred in the United States during most of the later part of the
 A) 1960s.
 B) 1970s.
 C) 1980s.
 D) 1990s.

Answer: A

Cost-Push Inflation

Topic: Cost-Push Inflation
Skill: Recognition

52) The main sources of cost-push inflation are
A) money wage rates and the cost of raw materials.
B) real wage rates and the cost of raw materials.
C) money wage rates and increases in aggregate demand.
D) increases in aggregate demand and real wage rates.

Answer: A

Topic: Cost-Push Inflation
Skill: Recognition

53) Cost-push inflation can start with
A) lower taxes.
B) an increase in government purchases.
C) higher money wage rates.
D) an increase in transfer payments.

Answer: C

Topic: Cost-Push Inflation
Skill: Recognition

54) Cost-push inflation can start with
A) a decrease in investment.
B) an increase in oil prices.
C) an increase in government purchases.
D) a decrease in the quantity of money.

Answer: B

Topic: Initial Effect of a Decrease in Aggregate Supply
Skill: Conceptual

55) At the start of a cost-push inflation,
A) productivity rises.
B) real GDP increases faster than the quantity of money.
C) the short-run aggregate supply curve shifts rightward.
D) prices and unemployment are rising.

Answer: D

Topic: Initial Effect of a Decrease in Aggregate Supply
Skill: Conceptual

56) At the start of a cost-push inflation,
A) only real GDP changes while the price level remains constant.
B) the price level and real GDP both increase.
C) the price level rises and real GDP decreases.
D) the price level rises and real GDP does not change.

Answer: C

Topic: Initial Effect of a Decrease in Aggregate Supply
Skill: Conceptual

57) Suppose that the money prices of raw materials increase so that short-run aggregate supply decreases. If the Federal Reserve does not respond, the higher money price of raw materials will
I. repeatedly shift the aggregate demand curve rightward and raise the price level.
II. shift the aggregate demand curve rightward and the aggregate supply curve leftward, raising prices.
III. result initially in lower employment and a higher price level.
A) I only.
B) both I and II.
C) both II and III.
D) III only.

Answer: D

Topic: Initial Effect of a Decrease in Aggregate Supply
Skill: Recognition

58) An increase in the money wage rate shifts the *SAS* curve
A) rightward, as does an increase in the money prices of raw materials.
B) leftward, as does an increase in the money prices of raw materials.
C) rightward, whereas an increase in the money prices of raw materials shifts the *SAS* curve leftward.
D) leftward, whereas an increase in the money prices of raw materials shifts the *SAS* curve rightward.

Answer: B

Topic: Initial Effect of a Decrease in Aggregate Supply
Skill: Analytical

59) By itself, an increase in the price of oil shifts the
A) short-run aggregate supply curve leftward and does not shift the aggregate demand curve.
B) short-run aggregate supply curve rightward and does not shift the aggregate demand curve.
C) aggregate demand curve leftward and does not shift the short-run aggregate supply curve.
D) aggregate demand curve rightward and does not shift the short-run aggregate supply curve.
Answer: A

Topic: Initial Effect of a Decrease in Aggregate Supply
Skill: Analytical

60) By itself, a fall in the price of oil shifts the
A) short-run aggregate supply curve leftward and does not shift the aggregate demand curve.
B) short-run aggregate supply curve rightward and does not shift the aggregate demand curve.
C) aggregate demand curve leftward and does not shift the short-run aggregate supply curve.
D) aggregate demand curve rightward and does not shift the short-run aggregate supply curve.
Answer: B

Topic: Stagflation
Skill: Conceptual

61) A one-time increase in oil prices without any following change in aggregate demand produces
A) stagflation.
B) demand-pull inflation.
C) an increase in the money wage rate that exceeds the percentage increase in the price level.
D) a one-time fall in the price level.
Answer: A

Topic: Stagflation
Skill: Recognition

62) Stagflation occurs when the price level
A) falls and real GDP increases.
B) and real GDP both decrease.
C) rises and real GDP decreases.
D) and real GDP both increase.
Answer: C

Topic: Stagflation
Skill: Conceptual

63) Stagflation is characterized by a(n)
A) increase in both output and the price level.
B) decrease in output and the price level.
C) increase in the unemployment rate and an increase in the price level.
D) economy which is growing at a rate equal to its historical average growth rate.
Answer: C

Topic: Aggregate Demand Response
Skill: Conceptual

64) A one-time increase in the price of oil followed by a one-time increase in aggregate demand produce
A) continuing cost-push inflation.
B) continuing demand-pull inflation.
C) a one-time decrease in the price level.
D) a one-time increase in the price level.
Answer: D

Topic: A Cost-Push Inflation Process
Skill: Recognition

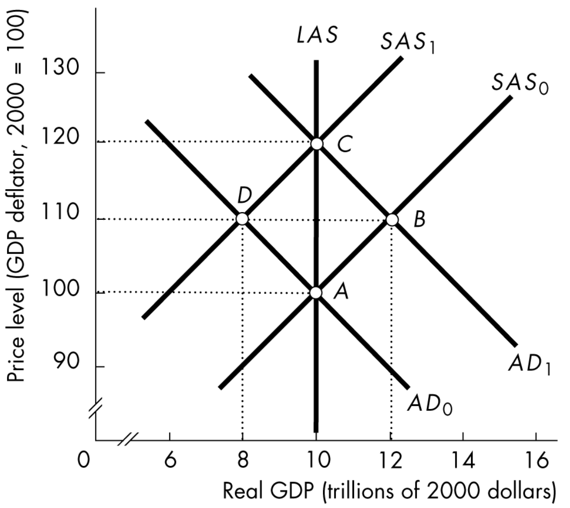
65) A cost-push inflation spiral results if the Fed's response to stagflation is to keep
A) decreasing aggregate demand.
B) decreasing aggregate supply.
C) increasing aggregate demand.
D) increasing aggregate supply.
Answer: C

Topic: A Cost-Push Inflation Process
Skill: Recognition

66) During a cost-push inflation spiral, the money wage rate ____ and the quantity of money ____.
A) increases; increases
B) increases; does not change
C) does not change; increases
D) does not change; does not change
Answer: A

Topic: A Cost-Push Inflation Process
Skill: Recognition

67) For a cost-push inflation to occur, oil price increases must be accompanied by
A) decreased investment spending.
B) lower personal tax rates.
C) increases in the quantity of money.
D) increases in government purchases.
Answer: C



Topic: Initial Effect of a Decrease in Aggregate Supply
Skill: Analytical

68) In the above figure, the economy is at point *A*. An increase in oil prices that sets off a cost-push inflation will initially move the economy from point *A* to point

A) *A*, that is, the economy does not change.
B) *B*.
C) *C*.
D) *D*.

Answer: D

Topic: Initial Effect of a Decrease in Aggregate Supply
Skill: Analytical

69) In the above figure, the economy is at point *A*. An increase in money wage rates that sets off a cost-push inflation will initially move the economy from point *A* to point

A) *A*, that is, the economy does not change.
B) *B*.
C) *C*.
D) *D*.

Answer: D

Topic: A Cost-Push Inflation Process
Skill: Analytical

70) In the above figure, the economy is at point *A*. An increase in oil prices occurs after which the Fed responds by increasing the quantity of money. The economy moves from point *A* to

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

Answer: A

Effects of Inflation

Topic: Effects of Inflation
Skill: Recognition

71) Inflation that is higher than expected transfers resources from

A) employers to workers and borrowers to lenders.
B) employers to workers and lenders to borrowers.
C) workers to employers and borrowers to lenders.
D) workers to employers and lenders to borrowers.

Answer: D

Topic: Unanticipated Inflation in the Labor Market
Skill: Conceptual

72) If workers and employers base their wages on an inflation forecast that turns out to be correct,

A) workers gain at the expense of employers.
B) employers gain at the expense of workers.
C) both workers and employers lose from the inflation.
D) neither workers nor employers gain or lose from the inflation.

Answer: D

Topic: Unanticipated Inflation in the Labor Market
Skill: Conceptual

73) When workers and employers base wages on an inflation forecast that turns out to be too low, workers are ____ and employers are ____.

A) helped; helped
B) helped; hurt
C) hurt; helped
D) hurt; hurt

Answer: C

Topic: Unanticipated Inflation in the Labor Market
Skill: Analytical

74) Suppose that wage contracts between workers and employers are based on an expected inflation rate of 3 percent and a 5 percent increase in money wages is agreed upon. If inflation actually equals 7 percent, real wages

A) rise.
B) fall.
C) do not change.
D) might change but more information is needed to determine if they rise, fall, or stay the same.

Answer: B

Topic: Unanticipated Inflation in the Capital Market
Skill: Analytical

75) Inflation that is higher than expected redistributes wealth toward

A) fixed income groups.
B) lenders.
C) borrowers.
D) retirees.

Answer: C

Topic: Unanticipated Inflation in the Capital Market
Skill: Conceptual

76) If both lenders and borrowers expect more inflation than actually occurs, borrowers ____ income and lenders ____ income.

A) gain; gain
B) gain; lose
C) lose; gain
D) lose; lose

Answer: C

Topic: Unanticipated Inflation in the Capital Market
Skill: Conceptual

77) If both lenders and borrowers expect less inflation than actually occurs, borrowers are ____ and lenders are ____.

A) helped; helped
B) helped; hurt
C) hurt; helped
D) hurt; hurt

Answer: B

Topic: Unanticipated Inflation in the Capital Market
Skill: Conceptual

78) If lenders and borrowers base their loan contracts on an inflation forecast that turns out to be correct,

A) borrowers gain at the expense of lenders.
B) lenders gain at the expense of lenders.
C) neither borrowers nor lenders lose or gain from the inflation.
D) both borrowers and lenders gain because of the inflation.

Answer: C

Topic: Unanticipated Inflation in the Capital Market
Skill: Conceptual

79) If lenders and borrowers have an inflation forecast that turns out to be too low,

A) both borrowers and lenders will wish that they had lent more.
B) borrowers will wish that they had borrowed more and lenders will wish that they had lent less.
C) borrowers will wish that they had borrowed less and lenders will wish that they had lent more.
D) borrowers will wish that they had borrowed less and lenders will wish that they had lent less.

Answer: B

Topic: Unanticipated Inflation in the Capital Market
Skill: Conceptual

80) If inflation turns out to be lower than expected,

A) both borrowers and lenders will wish that the volume of loans had been higher.
B) borrowers will wish that they had borrowed more and lenders will wish that they had lent less.
C) borrowers will wish that they had borrowed less and lenders will wish that they had lent more.
D) both borrowers and lenders will wish that the volume of loans had been lower.

Answer: C

Topic: Forecasting Inflation
Skill: Conceptual

81) Which of the following is true regarding rational expectations?
   I. A rational expectation is the most accurate forecast available.
   II. If all the available information is used correctly, a rational expectation will be correct.
   III. A rational expectation is typically correct 50 percent of the time.
 A) I.
 B) I and II.
 C) I and III.
 D) I, II, and III.

Answer: A

Topic: The Costs of Anticipated Inflation
Skill: Conceptual

82) Which of the following is a cost of anticipated inflation?
 A) Prices of goods and money wage rates rise.
 B) People may seek alternatives to money.
 C) Tax rates could fall, increasing the return to saving.
 D) Interest rates could rise along with inflation.

Answer: B

Topic: The Costs of Anticipated Inflation, Transactions Costs
Skill: Conceptual

83) Anticipated inflation ____ transaction costs causing potential GDP to ____.
 A) increases; increase
 B) decreases; decrease
 C) increases; decrease
 D) does not affect; remain constant

Answer: C

Topic: The Costs of Anticipated Inflation, Tax Effects
Skill: Conceptual

84) Because anticipated inflation raises the nominal interest rate, it thereby increases the dollars paid as interest, so the after-tax real interest rate
 A) rises.
 B) falls.
 C) is not affected.
 D) may rise or fall depending on the amount of inflation.

Answer: B

Inflation and Unemployment: The Phillips Curve

Topic: Inflation and Unemployment: The Phillips Curve
Skill: Recognition

85) The Phillips curve shows the relationship between
 A) the nominal interest rate and the real interest rate.
 B) the expected rate of inflation and the nominal interest rate.
 C) the real interest rate and the unemployment rate.
 D) the unemployment rate and the inflation rate.

Answer: D

Topic: Inflation and Unemployment: The Phillips Curve
Skill: Analytical

86) A Phillips curve measures the relationship between
 A) the unemployment rate and inflation.
 B) the level of money wage rates and GDP.
 C) unemployment and GDP.
 D) inflation and GDP.

Answer: A

Topic: Inflation and Unemployment: The Phillips Curve
Skill: Recognition

87) A Phillips curve shows the relationship between the
 A) price level and real GDP.
 B) unemployment rate and real GDP.
 C) inflation rate and the unemployment rate.
 D) inflation rate and real GDP.

Answer: C

Topic: The Short-Run Phillips Curve
Skill: Recognition

88) For a given level of anticipated inflation and natural rate of unemployment, the short-run Phillips curve shows the relationship between
 A) potential GDP and real GDP.
 B) real GDP growth and the unemployment rate.
 C) inflation and money growth.
 D) inflation and the unemployment rate.

Answer: D

Topic: The Short-Run Phillips Curve
Skill: Conceptual

89) The short-run Phillips curve gives much the same information as
A) the *AD* curve.
B) the *SAS* curve.
C) the *LAS* curve.
D) None of the above.
Answer: B

Topic: The Short-Run Phillips Curve
Skill: Conceptual

90) A movement along the *SAS* curve that brings a lower price level and a decrease in real GDP is equivalent to a
A) movement along a short-run Phillips curve that brings a decrease in the inflation rate and an increase in the unemployment rate.
B) movement along a short-run Phillips curve that brings an increase in the inflation rate and an increase in the unemployment rate.
C) shift in the short-run Phillips curve that brings a decrease in the inflation rate and an increase in the unemployment rate.
D) shift in the short-run Phillips curve that brings an increase in the inflation rate and an increase in the unemployment rate.
Answer: A

Topic: The Short-Run Phillips Curve
Skill: Recognition

91) The short-run Phillips curve
A) slopes downward.
B) slopes upward.
C) is horizontal.
D) is vertical.
Answer: A

Topic: The Short-Run Phillips Curve
Skill: Recognition

92) Moving along a short-run Phillips curve,
A) the price level is constant.
B) unemployment is constant.
C) the expected inflation rate is constant.
D) the inflation rate is constant.
Answer: C

Topic: The Short-Run Phillips Curve
Skill: Conceptual

93) Which of the following is held constant when moving along a short-run Phillip's curve?
A) the inflation rate
B) the unemployment rate
C) the expected inflation rate
D) the growth rate of the quantity of money
Answer: C

Topic: The Short-Run Phillips Curve
Skill: Conceptual

94) Moving along the short-run Phillips curve indicates
A) that higher inflation leads to a higher unemployment rate.
B) that higher unemployment leads to a higher inflation rate.
C) a tradeoff between inflation and unemployment so that high inflation is related to lower unemployment.
D) a natural rate of unemployment that does not vary with inflation.
Answer: C

Topic: The Short-Run Phillips Curve
Skill: Conceptual

95) Movements upward along the short-run Phillips curve result from
A) anticipated increases in the inflation rate.
B) unanticipated increases in the inflation rate.
C) anticipated decreases in the inflation rate.
D) unanticipated decreases in the inflation rate.
Answer: B

Topic: The Short-Run Phillips Curve
Skill: Conceptual

96) Along a short-run Phillips curve, suppose the expected inflation rate is 6 percent. If the inflation rate turns out to be 8 percent instead,
A) there is a movement upward along the curve.
B) there is a movement downward along the curve.
C) there is a downward shift of the curve.
D) the difference in the inflation rate does not affect the Phillips curve.
Answer: A

Topic: The Short-Run Phillips Curve
Skill: Conceptual

97) Movements downward along the short-run Phillips curve result from unanticipated
A) decreases in aggregate demand.
B) increases in aggregate demand.
C) decreases in aggregate supply.
D) increases in aggregate supply.

Answer: A

Topic: The Short-Run Phillips Curve
Skill: Conceptual

98) Suppose the expected inflation rate is 8 percent and the unemployment rate is 3 percent. If the inflation rate rises to 10 percent and the expected inflation rate does not change,
A) the short-run Phillips curve will shift upward.
B) the short-run Phillips curve will shift downward.
C) there will be a movement along the short-run Phillips curve.
D) the natural rate of unemployment will rise.

Answer: C

Topic: The Short-Run Phillips Curve
Skill: Analytical

99) Suppose that last year the economy of Suffera was experiencing an expected inflation rate of 8 percent and unemployment rate of 12 percent. An unanticipated increase in the inflation rate would
A) increase the unemployment rate.
B) increase the inflation rate and decrease the unemployment rate.
C) increase the inflation rate but have no effect on the unemployment rate.
D) None of the above answers is correct.

Answer: B

Topic: The Short-Run Phillips Curve
Skill: Analytical

100) An increase in the expected inflation rate shifts the
A) short-run Phillips curve downward.
B) short-run Phillips curve upward.
C) long-run Phillips curve upward.
D) long-run Phillips curve downward.

Answer: B

Topic: The Short-Run Phillips Curve
Skill: Analytical

101) An increase in the expected inflation rate leads to _____ the short-run Phillips curve.
A) a movement upward along
B) a movement downward along
C) an upward shift of
D) a downward shift of

Answer: C

Topic: The Short-Run Phillips Curve
Skill: Analytical

102) Suppose the expected inflation rate is 12 percent and the unemployment rate is 5 percent. If the expected inflation rate increases to 13 percent,
A) the short-run Phillips curve will shift upward.
B) the short-run Phillips curve will shift downward.
C) there will be a movement along the short-run Phillips curve.
D) the natural rate of unemployment will rise.

Answer: A

Topic: The Long-Run Phillips Curve
Skill: Recognition

103) The long-run Phillips curve shows the relationship between the inflation rate and the unemployment rate when the
A) real interest rate equals the nominal interest rate.
B) real interest rate is zero.
C) actual inflation rate equals the expected inflation rate.
D) inflation rate is zero.

Answer: C

Topic: The Long-Run Phillips Curve
Skill: Recognition

104) The long-run Phillips curve
A) slopes downward.
B) slopes upward.
C) is horizontal.
D) is vertical.

Answer: D

Topic: The Long-Run Phillips Curve
Skill: Conceptual

105) Along the long-run Phillips curve,
A) actual inflation is greater than expected inflation.
B) actual inflation is equal to expected inflation.
C) actual inflation is less than expected inflation.
D) None of the above answers is correct.

Answer: B

Topic: The Long-Run Phillips Curve
Skill: Conceptual

106) The long-run Phillips curve shows that in the long run, policymakers can

A) lower unemployment if they are willing to accept more inflation forever.
B) lower inflation if they are willing to accept higher unemployment forever.
C) choose the unemployment rate but not the inflation rate.
D) lower inflation without increasing unemployment.

Answer: D

Topic: The Long-Run Phillips Curve
Skill: Analytical

107) The position of the long-run Phillips curve is determined by

A) the control of the quantity of money by the Fed.
B) the natural rate of unemployment.
C) the inflation rate.
D) the level of interest rates controlled by the Fed.

Answer: B

Topic: The Long-Run Phillips Curve
Skill: Analytical

108) Which of the following statements about the long-run Phillips curve is correct?

A) The long-run Phillips curve is horizontal.
B) The long-run Phillips curve shifts leftward of the natural rate of unemployment decreases.
C) The long-run Phillips curve shifts rightward and upward if the expected inflation rate increases.
D) None of the above statements is correct.

Answer: B

Topic: The Short-Run and Long-Run Phillips Curve
Skill: Conceptual

109) The short-run Phillips curve intersects the long-run Phillips curve at the

A) natural interest rate.
B) nominal interest rate.
C) natural inflation rate.
D) expected inflation rate.

Answer: D

Topic: The Short-Run and Long-Run Phillips Curve
Skill: Recognition

110) An increase in the expected inflation rate shifts

A) both the short-run and the long-run Phillips curves upward.
B) the short-run but not the long-run Phillips curve upward.
C) the long-run but not the short-run Phillips curve upward.
D) neither the short-run nor the long-run Phillips curve.

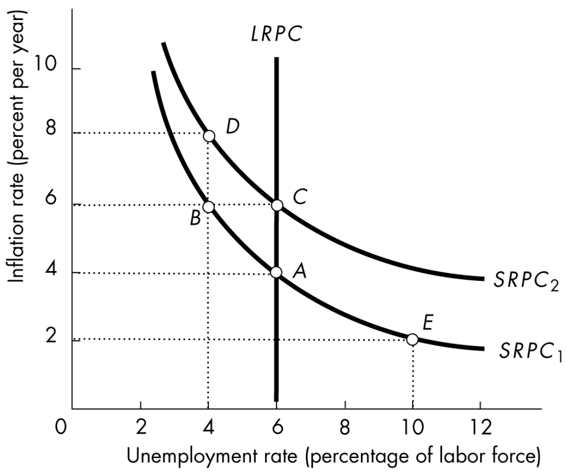
Answer: B

Topic: The Short-Run and Long-Run Phillips Curve
Skill: Recognition

111) An increase in the natural rate of unemployment shifts

A) both the short-run and the long-run Phillips curves rightward.
B) the short-run but not the long-run Phillips curve rightward.
C) the long-run but not the short-run Phillips curve rightward.
D) neither the short-run nor the long-run Phillips curve.

Answer: A



Topic: The Short-Run Phillips Curve
Skill: Analytical

112) In the above figure, suppose that the economy currently is at point *A*. If the inflation rate falls and this fall is unanticipated by the public, the economy moves to a point such as point

A) *B*.
B) *C*.
C) *D*.
D) *E*.

Answer: D

Topic: The Short-Run Phillips Curve
Skill: Analytical

113) In the above figure, suppose that the economy currently is at point *A*. If the inflation rate rises and this rise is NOT anticipated by the public, the economy moves to a point such as point

A) *B*.
B) *C*.
C) *D*.
D) *E*.

Answer: A

Topic: The Short-Run Phillips Curve
Skill: Analytical

114) In the above figure, what may have shifted the short-run Phillips curve from $SRPC_1$ to $SRPC_2$ while leaving the long-run Phillips curve unchanged at *LRPC*?

A) The natural rate of unemployment might have increased.
B) The natural rate of unemployment might have decreased.
C) People's inflationary expectations might have increased.
D) People's inflationary expectations might have decreased.

Answer: C

Topic: The Long-Run Phillips Curve
Skill: Analytical

115) In the above figure, suppose that the economy currently is at point *A*. If the inflation rate rises and this rise is anticipated by the public, the economy moves to a point such as point

A) *B*.
B) *C*.
C) *D*.
D) *E*.

Answer: B

Topic: The Short-Run and Long-Run Phillips Curve
Skill: Analytical

116) In the above figure, suppose that the economy is at point *C*. If the inflation rate is lower than expected,

A) the *LRPC* will shift rightward.
B) the *SRPC* will shift downward.
C) the *SRPC* will shift upward.
D) Neither the *LRPC* nor the *SRPC* will shift.

Answer: D

Interest Rates and Inflation

Topic: Interest Rates and Inflation
Skill: Recognition

117) The real interest rate equals the
A) nominal interest rate minus the expected inflation rate.
B) nominal interest rate plus the expected inflation rate.
C) nominal interest rate minus the Fed discount rate.
D) rate that banks lend to its best customers.

Answer: A

Topic: Interest Rates and Inflation
Skill: Conceptual

118) Considering the U.S. experience, there has been _____ relationship between the inflation rate and the _____.
A) a positive; unemployment rate
B) a positive; nominal interest rate
C) a negative; nominal interest rate
D) no; nominal interest rate

Answer: B

Topic: Why Inflation Influences the Nominal Interest Rate
Skill: Conceptual

119) When the inflation rate is zero, the
A) real interest rate is greater than the nominal interest rate.
B) real interest rate is less than the nominal interest rate.
C) nominal interest rate is zero.
D) real interest rate equals the nominal interest rate.

Answer: D

Topic: Why Inflation Influences the Nominal Interest Rate
Skill: Conceptual

120) When the inflation rate is positive, the
A) real interest rate is greater than the nominal interest rate.
B) real interest rate is less than the nominal interest rate.
C) nominal interest rate is zero.
D) real interest rate equals the nominal interest rate.

Answer: B

Topic: Why Inflation Influences the Nominal Interest Rate
Skill: Conceptual

121) When the inflation rate is negative, the
A) real interest rate is greater than the nominal interest rate.
B) real interest rate is less than the nominal interest rate.
C) nominal interest rate is zero.
D) real interest rate equals the nominal interest rate.

Answer: A

Topic: Why Inflation Influences the Nominal Interest Rate
Skill: Conceptual

122) People know that the inflation rate will increase from 3 percent to 5 percent. As a result
A) the nominal interest rate falls by 2 percentage points.
B) the nominal interest rate is constant.
C) the nominal interest rate rises by 2 percentage points.
D) the real interest rate rises by 2 percentage points.

Answer: C

Topic: Why Inflation Influences the Nominal Interest Rate
Skill: Conceptual

123) People know that the inflation rate will decrease from 7 percent to 3 percent. As a result
A) the nominal interest rate falls by 4 percentage points.
B) the nominal interest rate is constant.
C) the nominal interest rate rises by 4 percentage points.
D) the nominal interest rate equals 3 percent.

Answer: A

Topic: Why Inflation Influences the Nominal Interest Rate
Skill: Analytical

124) In 2004 the inflation rate is 1 percent and Wally is willing to lend Barbara $100,000 at a 6 percent interest rate. In 2005, the inflation rate rises to 3 percent. As a result

A) Wally and Barbara will agree to a nominal interest rate of 9 percent.
B) Wally and Barbara will agree to a nominal interest rate of 8 percent.
C) Wally and Barbara will agree to a nominal interest rate of 5 percent.
D) Wally and Barbara will agree to a real interest rate of 9 percent.

Answer: B

Study Guide Questions

Topic: Study Guide Question, Inflation and the Price Level
Skill: Analytical

125) Of the following sequences of price levels, which correctly represents a 5 percent inflation rate?

A) 100, 100, 100, 100.
B) 100, 105, 105, 105.
C) 100, 105, 110, 115.
D) 100, 105, 110.25, 115.76.

Answer: D

Topic: Study Guide Question, A Demand-Pull Inflation Process
Skill: Conceptual

126) Which of the following would shift the aggregate demand curve leftward year after year?

A) A one-time tax cut.
B) A one-time increase in government purchases of goods and services.
C) Inflation.
D) Negative growth in the quantity of money.

Answer: D

Topic: Study Guide Question, A Demand-Pull Inflation Process
Skill: Conceptual

127) Which of the following results in the aggregate demand curve shifting rightward year after year?

A) A one-time tax cut.
B) A one-time increase in government purchases of goods and services.
C) Inflation.
D) Growth in the quantity of money.

Answer: D

Topic: Study Guide Question, A Demand-Pull Inflation Process
Skill: Conceptual

128) Demand-pull inflation occurs when

A) aggregate demand increases persistently.
B) aggregate supply and aggregate demand decrease persistently.
C) the government increases its purchases.
D) oil prices increase substantially.

Answer: A

Topic: Study Guide Question, A Demand-Pull Inflation Process
Skill: Analytical

129) In a demand-pull inflation, the *AD* curve shifts _____ and the *SAS* curve shifts _____.

A) rightward; rightward
B) rightward; leftward
C) leftward; rightward
D) leftward; leftward

Answer: B

Topic: Study Guide Question, Effect of a Decrease in Aggregate Supply
Skill: Analytical

130) A rise in the price level because of an increase in the money wage rate

A) definitely triggers a cost-push inflation.
B) definitely triggers a demand-pull inflation.
C) might trigger a cost-push inflation.
D) might trigger a demand-pull inflation.

Answer: C

Topic: Study Guide Question, Effect of a Decrease in Aggregate Supply
Skill: Analytical

131) A rise in the price level owing to an increase in the price of oil
- A) definitely triggers a cost-push inflation.
- B) definitely triggers a demand-pull inflation.
- C) might trigger a cost-push inflation.
- D) might trigger a demand-pull inflation.

Answer: C

Topic: Study Guide Question, Effect of a Decrease in Aggregate Supply
Skill: Analytical

132) Cost-push inflation might start with
- A) a rise in money wage rates.
- B) an increase in government purchases.
- C) an increase in the quantity of money.
- D) a fall in the prices of raw materials.

Answer: A

Topic: Study Guide Question, Cost-Push Inflation
Skill: Analytical

133) Which of the following statements about a cost-push inflation is correct?
- A) Cost-push inflation starts when an increase in aggregate demand "pushes" costs higher.
- B) Cost-push inflation might start with a rise in the price of raw materials, but it requires increases in the quantity of money to persist.
- C) To persist, cost-push inflation needs a continual series of cost hikes with no change in aggregate demand.
- D) The United States has never experienced a cost-push inflation.

Answer: B

Topic: Study Guide Question, Unanticipated Inflation
Skill: Analytical

134) If the *AD* curve shifts rightward less than expected,
- A) the price level is lower than expected and output is below potential GDP.
- B) the price level is higher than expected and output is below potential GDP.
- C) the price level is lower than expected and output is larger than potential GDP.
- D) the price level is higher than expected and output is larger than potential GDP.

Answer: A

Topic: Study Guide Question, Unanticipated Inflation
Skill: Conceptual

135) If the *AD* curve shifts rightward more than expected,
- A) expectations could not be rational expectations.
- B) real GDP will be greater than potential GDP.
- C) real GDP will be less than potential GDP.
- D) the price level will be lower than expected.

Answer: B

Topic: Study Guide Question, Unanticipated Inflation, Labor/Capital Markets
Skill: Recognition

136) As far as redistribution is concerned, if the inflation rate is lower than anticipated,
- A) lenders gain at the expense of borrowers and some workers gain at the expense of employers.
- B) borrowers gain at the expense of lenders and some workers gain at the expense of employers.
- C) lenders gain at the expense of borrowers and some employers gain at the expense of workers.
- D) borrowers gain at the expense of lenders and some employers gain at the expense of workers.

Answer: A

Topic: Study Guide Question, Unanticipated Inflation
Skill: Conceptual

137) If the aggregate demand curve shifts rightward less than expected,
- A) expectations could not be rational expectations.
- B) real GDP will be less than potential GDP.
- C) the real interest rate will be lower than expected.
- D) the real wage rate will be lower than expected.

Answer: B

Topic: Study Guide Question, Anticipated Inflation
Skill: Conceptual

138) A correctly anticipated increase in aggregate demand that causes a correctly anticipated increase in inflation leads to ____ in short-run aggregate supply and ___ in real GDP.
- A) an increase; an increase
- B) a decrease; an increase
- C) a decrease; no change
- D) a decrease; a decrease

Answer: C

Topic: Study Guide Question, Rational Expectation
Skill: Recognition

139) Which of the following is NOT true of a rational expectation forecast?
A) It uses all available information.
B) It is the best forecast possible.
C) It always is correct.
D) None of the above because they are all true.
Answer: C

Topic: Study Guide Question, The Costs of Anticipated Inflation
Skill: Conceptual

140) Which of the following is NOT a cost of high anticipated inflation?
A) Higher transactions costs.
B) An unemployment rate that exceeds the natural rate.
C) Increased uncertainty.
D) A decrease in saving and investment.
Answer: B

Topic: Study Guide Question, The Costs of Anticipated Inflation
Skill: Conceptual

141) Higher anticipated inflation
A) increases economic growth.
B) decreases economic growth.
C) decreases unemployment.
D) has no effect on economic growth or unemployment.
Answer: B

Topic: Study Guide Question, The Short-Run Phillips Curve
Skill: Recognition

142) The short-run Phillips curve shows the relationship between
A) the price level and real GDP in the short run.
B) the price level and unemployment in the short run.
C) inflation and unemployment when expected inflation equals the actual inflation.
D) inflation and unemployment when expected inflation does not change.
Answer: D

Topic: Study Guide Question, The Short-Run Phillips Curve
Skill: Recognition

143) The short-run Phillips curve shows the ____ relationship between ____.
A) negative; unemployment and real GDP
B) positive; unemployment and real GDP
C) negative; inflation and unemployment
D) positive; real GDP and inflation
Answer: C

Topic: Study Guide Question, The Long-Run Phillips Curve
Skill: Recognition

144) The long-run Phillips curve shows the relationship between
A) the price level and real GDP in the long run.
B) the price level and unemployment in the long run.
C) inflation and unemployment when expected inflation equals the actual inflation.
D) inflation and unemployment when expected inflation does not change.
Answer: C

Topic: Study Guide Question, The Short-Run and Long-Run Phillips Curve
Skill: Conceptual

145) A decrease in the natural rate of unemployment shifts the long-run Phillips curve ____ and ____ the short-run Phillips curve.
A) rightward; does not shift
B) leftward; shifts rightward
C) rightward; shifts rightward
D) leftward; shifts leftward
Answer: D

Topic: Study Guide Question, The Short-Run and Long-Run Phillips Curve
Skill: Conceptual

146) A rise in the expected inflation rate leads to ____ in the long-run Phillips curve and ____ in the short-run Phillips curve.
A) an upward shift; no shift
B) a leftward shift; an upward shift
C) no shift; no shift
D) no shift; an upward shift
Answer: D

Topic: Study Guide Question, The Short-Run and Long-Run Phillips Curve
Skill: Conceptual

147) A decrease in the expected inflation rate causes ____ in the long-run Phillips curve and ____ in the short-run Phillips curve.
A) an upward shift; no shift
B) a leftward shift; an upward shift
C) no shift; no shift
D) no shift; a downward shift
Answer: D

Topic: Study Guide Question, Inflation Influences the Nominal Interest Rate
Skill: Analytical

148) Initially the nominal interest rate is 8 percent and the inflation rate is 5 percent. People know that the inflation rate increases to 10 percent. What is the new nominal interest rate?
A) 8 percent.
B) 3 percent.
C) 13 percent.
D) 11 percent.
Answer: C

Topic: Study Guide Question, Inflation Influences the Nominal Interest Rate
Skill: Analytical

149) Suppose that, initially, the nominal interest rate is 6 percent and the expected inflation rate is 3 percent. If the expected inflation rate increases to 6 percent, what will be the new nominal interest rate?
A) 6 percent
B) 1 percent
C) 11 percent
D) 9 percent
Answer: D

Topic: Study Guide Question, Inflation and Interest Rates in the United States
Skill: Recognition

150) U.S. data show that over the last 30 years, the real interest rate has ____, and that an increase in inflation is usually accompanied by ____ nominal interest rates.
A) been constant; higher
B) been constant; lower
C) fluctuated; lower
D) fluctuated; higher
Answer: D

MyEconLab Questions

Topic: Inflation and the Price Level
Level 1: Definitions and Concepts

151) Inflation is a process in which ____.
A) demand always increases
B) the price level of certain commodities increase
C) the value of money is increasing
D) the price level is rising
Answer: D

Topic: Demand-Pull Inflation
Level 1: Definitions and Concepts

152) Demand-pull inflation is an inflation that results from an initial ____.
A) increase in aggregate demand
B) decrease in aggregate demand
C) increase in wage rates
D) increase in natural resource prices
Answer: A

Topic: Cost-Push Inflation
Level 1: Definitions and Concepts

153) Cost-push inflation is an inflation that results from an initial ____.
A) increase in money wage rates or money prices of raw materials
B) decrease in taxes
C) increase in investment
D) increase in taxes
Answer: A

Topic: Stagflation
Level 1: Definitions and Concepts

154) Stagflation is the combination of a ____ and ____.
A) fall in inflation; an increase in real GDP
B) fall in the price level; an increase in real GDP
C) rise in the price level; a decrease in real GDP
D) rise in inflation; a decrease in real GDP
Answer: C

Topic: Unanticipated Inflation in the Labor Market
Level 1: Definitions and Concepts

155) When the actual inflation rate differs from the expected inflation rate, income is redistributed to that ____.

A) there is high unemployment
B) workers consistently gain at the expense of the employers
C) employers sometimes gain and sometimes lose
D) employers consistently gain at the expense of the workers

Answer: C

Topic: Rational Expectation
Level 1: Definitions and Concepts

156) The forecast of inflation that is based on all the relevant information is called a ____.

A) rational expectation
B) rational inflation expectation
C) national inflation rate
D) rational inflation rate

Answer: A

Topic: Inflation and Unemployment: The Phillips Curve
Level 1: Definitions and Concepts

157) A direct way to study inflation and unemployment is by using ____.

A) a Phillips curve
B) data from high inflation countries
C) the AS-AD model
D) data from the OECD

Answer: A

Topic: The Short-Run Phillips Curve
Level 1: Definitions and Concepts

158) The short-run Phillips curve shows the tradeoff between ____, holding the expected inflation rate and the natural unemployment rate constant.

A) the price level and real GDP
B) inflation and unemployment
C) the price level and unemployment
D) inflation and employment

Answer: B

Topic: The Long-Run Phillips Curve
Level 1: Definitions and Concepts

159) The long-run Phillips curve is ____.

A) horizontal at the expected inflation rate
B) vertical at the natural unemployment rate
C) horizontal at the actual inflation rate
D) vertical at the actual inflation rate

Answer: B

Topic: Interest Rates and Inflation
Level 1: Definitions and Concepts

160) The real interest rate ____ the expected inflation rate ____ the nominal interest rate, approximately.

A) plus; equals
B) equals; plus
C) equals; minus
D) minus; equals

Answer: A

Topic: A Demand-Pull Inflation Process
Level 2: Using Definitions and Concepts

161) If the government increases its purchases of goods and services and as a result, the money wage rate increases, the economy has experienced ____.

A) demand-pull inflation
B) demand-push inflation
C) a one-time rise in the price level
D) cost-push inflation

Answer: A

Topic: A Demand-Pull Inflation Process
Level 2: Using Definitions and Concepts

162) A one-time rise in the price level can turn into a demand-pull inflation when ____.

A) the money wage rate continues to increase
B) the quantity of money persistently decreases
C) taxes consistently increase
D) the quantity of money persistently increases

Answer: D

Topic: Stagflation
Level 2: Using Definitions and Concepts

163) An increase in the world price of oil will result in ____.

A) deflation
B) stagflation
C) cost-push inflation
D) demand-pull inflation

Answer: B

Topic: A Cost-Push Inflation Process
Level 2: Using Definitions and Concepts

164) A stagflation can turn into a cost-push inflation process when _____.

A) the quantity of money persistently decreases
B) taxes consistently increase
C) the money wage rate decreases
D) the quantity of money persistently increases

Answer: D

Topic: Unanticipated Inflation in the Capital Market
Level 2: Using Definitions and Concepts

165) When inflation is less than anticipated inflation, _____.

A) lenders gain at the expense of borrowers
B) borrowers and lenders both lose
C) borrowers and lenders both gain
D) borrowers gain at the expense of lenders

Answer: A

Topic: The Costs of Anticipated Inflation
Level 2: Using Definitions and Concepts

166) One of the costs of a rapid anticipated inflation is _____.

A) a decrease in the price level
B) an increase in potential GDP
C) a decrease in potential GDP
D) an increase in short-run aggregate supply

Answer: C

Topic: The Short-Run Phillips Curve
Level 2: Using Definitions and Concepts

167) Along the short-run Phillips curve, if the inflation rate rises above its expected rate, the unemployment rate _____.

A) equals the natural rate
B) remains constant
C) decreases below its natural rate
D) increases above its natural rate

Answer: C

Topic: The Short-Run and Long-Run Phillips Curve
Level 2: Using Definitions and Concepts

168) The short-run Phillips curve and the long-run Phillips curve intersect at the _____ and _____.

A) expected inflation rate; the expected unemployment rate
B) expected inflation rate; the natural unemployment rate
C) natural inflation rate; the expected employment rate
D) expected inflation rate; the expected employment rate

Answer: B

Topic: The Short-Run and Long-Run Phillips Curve
Level 2: Using Definitions and Concepts

169) A change in the natural rate of unemployment _____.

A) shifts only the short-run Phillips curve
B) causes a movement along the short-run Phillips curve
C) shifts only the long-run Phillips curve
D) shifts both the short-run and long-run Phillips curves

Answer: D

Topic: Inflation Rate
Level 3: Calculations and Predictions

170) If this year's price level is 126 and last year's price level was 120, the inflation rate is _____.

A) 0.95 percent a year
B) 5 percent a year
C) 6 percent a year
D) 1.05 percent a year

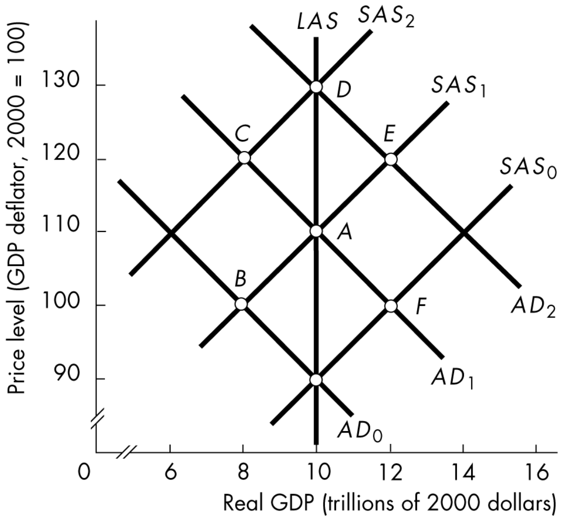
Answer: B

Topic: Inflation and the Price Level
Level 3: Calculations and Predictions

171) When the GDP deflator increases from 120 to 126 in one year, _____.

A) you can purchase more with each dollar
B) in the following year the GDP deflator will be 132
C) money is losing its value
D) you would anticipate a one-time rise in the price level

Answer: C



Topic: A Demand-Pull Inflation Process
Level 3: Calculations and Predictions

172) The figure above shows the aggregate demand, short-run aggregate supply, and long-run aggregate supply curves for the economy of Tomorrowland. The economy is currently at point *A*. A demand-pull rise in the price level will initially move the economy to point ____ and to point ____.

A) *E* when aggregate demand increases; *D* when the wage rate rises
B) *B* when aggregate demand decreases; *C* when the wage rate rises
C) *E*; *A* when aggregate demand changes
D) *C* when the wage rate rises; *D* when aggregate demand increases

Answer: A

Topic: A Cost-Push Inflation Process
Level 3: Calculations and Predictions

173) The figure above shows the aggregate demand, short-run aggregate supply, and long-run aggregate supply curves for the economy of Tomorrowland. The economy is currently at point *A*. A cost-push rise in the price level will initially move the economy to point ____ and to point ____.

A) *E* when aggregate demand increases; *D* when the money prices of raw materials rise
B) *C* when the money prices of raw materials rise; *D* when aggregate demand increases
C) *F*; *A* when the money prices of raw materials change
D) *B* when aggregate demand decreases; *C* when the money prices of raw materials rise

Answer: B

Topic: Unanticipated Inflation
Level 3: Calculations and Predictions

174) When actual inflation is greater than expected inflation, ____ gain at the expense of ____ and ____ gain at the expense of ____.

A) workers; employers; lenders; borrowers
B) employers; workers; borrowers; lenders
C) employers; workers; lenders; borrowers
D) workers; employers; borrowers; lenders

Answer: D

Topic: Unanticipated Inflation
Level 3: Calculations and Predictions

175) When the economy is at full employment and unanticipated inflation occurs, ____.

A) real GDP decreases to less than potential GDP
B) real GDP increases to more than potential GDP
C) potential GDP increases
D) real GDP remains at potential GDP

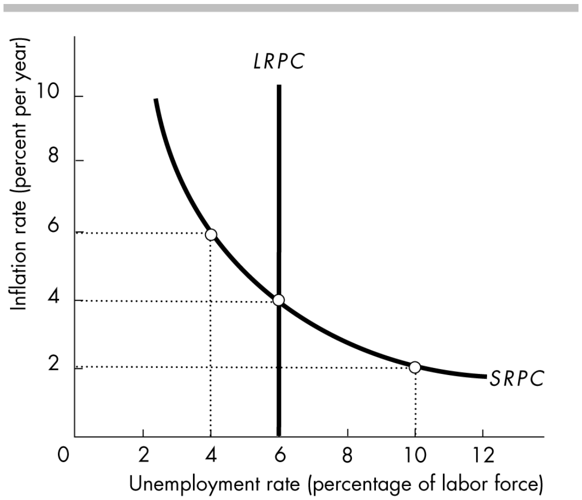
Answer: B

Topic: The Short-Run Phillips Curve
Level 3: Calculations and Predictions

176) When aggregate demand increases by more than it is expected to increase, the ____.

A) economy moves up along the short-run Phillips curve
B) economy moves down along the short-run Phillips curve
C) the short-run Phillips curve shifts leftward
D) the long-run Phillips curve shifts leftward

Answer: A



Topic: The Short-Run and Long-Run Phillips Curve
Level 3: Calculations and Predictions

177) The figure above shows an economy's Phillips curves. Currently, the inflation rate is 6 percent a year. The natural rate of unemployment is ____ percent and the expected inflation rate is ____ percent a year.

A) 6; 6
B) 6; 10
C) 4; 6
D) 6; 4

Answer: D

Topic: The Short-Run and Long-Run Phillips Curve
Level 3: Calculations and Predictions

178) The figure above shows an economy's Phillips curves. Currently, the inflation rate is 6 percent a year. If inflation expectations remain unchanged, the current unemployment rate is ____.

A) less than the natural rate
B) greater than the natural rate
C) equal to the natural rate
D) 6 percent

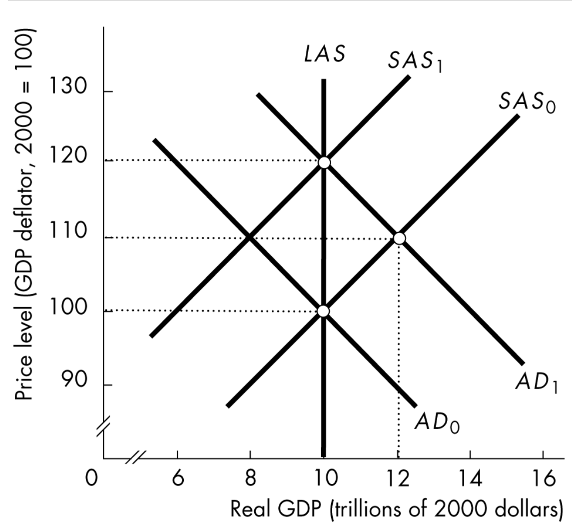
Answer: A

Topic: Interest Rates and Inflation
Level 3: Calculations and Predictions

179) The real interest rate is 4 percent a year. When the expected inflation rate is zero, the nominal interest rate is approximately ____ percent a year; and when the expected inflation rate is 2 percent a year, the nominal interest rate is approximately ____ percent a year.

A) 0; 2
B) 4; 6
C) 6; 8
D) 6; 4

Answer: B



Topic: Unanticipated Inflation
Level 4: Advanced Calculations and Predictions

180) An economy is at potential GDP and the price level is 100 in the figure above. If aggregate demand unexpectedly increases so that the aggregate demand curve shifts to AD_1, the inflation rate is ____.

A) 0 percent a year
B) 10 percent a year
C) 20 percent a year
D) More than 20 percent a year

Answer: B

Topic: Anticipated Inflation
Level 4: Advanced Calculations and Predictions

181) An economy is in long-run equilibrium and the price level is 100 in the figure above. Aggregate demand increases and the aggregate demand curve shifts to AD_1. If the increase in aggregate demand is expected, then the inflation rate is ____.
A) 0 percent a year
B) 10 percent a year
C) 20 percent a year
D) More than 20 percent a year

Answer: C

Topic: Initial Effect of an Increase in Aggregate Demand
Level 4: Advanced Calculations and Predictions

182) A cost-push inflation begins when the percentage increase in ____ is greater than the percentage increase in ____.
A) the quantity of money supplied; aggregate demand
B) aggregate demand; the quantity of money supplied
C) aggregate demand; short-run aggregate supply
D) short-run aggregate supply; aggregate demand

Answer: C

Topic: Unanticipated Inflation
Level 4: Advanced Calculations and Predictions

183) Suppose that the economy is at full employment and aggregate demand increases by more than it is anticipated to increase. Other things remaining the same, ____.
A) long-run aggregate supply decreases
B) real GDP remains at potential GDP
C) real GDP increases above potential GDP
D) real GDP decreases below potential GDP

Answer: C

Inflation rate (percent per year)	Unemployment rate (percent)
8	3
6	4
4	5
2	6

Topic: The Short-Run Phillips Curve
Level 4: Advanced Calculations and Predictions

184) An economy's natural rate of unemployment is 4 percent. The table above gives some points on the economy's short-run Phillips curve. When the unemployment rate is 4 percent ____.
A) actual inflation is greater than expected inflation
B) actual inflation is less than expected inflation
C) and the inflation rate is 6 percent a year, the short-run and long-run Phillips curves intersect
D) and the expected inflation rate is 8 percent a year, the short-run Phillips curve shifts downward

Answer: C

Topic: The Short-Run Phillips Curve
Level 4: Advanced Calculations and Predictions

185) An economy's natural rate of unemployment is 4 percent. The table above gives some points on the economy's short-run Phillips curve. Currently, real GDP equals potential GDP and the value of the GDP deflator is 125. Now, aggregate demand increases by more than expected, and the GDP deflator increases to 135. The economy's unemployment rate ____.
A) remains at 4 percent
B) increases to 6 percent
C) increases to 5 percent
D) decreases to 3 percent

Answer: D

Topic: The Short-Run Phillips Curve
Level 4: Advanced Calculations and Predictions

186) An economy's natural rate of unemployment is 4 percent. The table above gives some points on the economy's short-run Phillips curve. If the expected inflation rate becomes 8 percent per year, then the ____.
A) short-run Phillips curve shifts upward
B) long-run Phillips curve shifts rightward
C) long-run Phillips curve shifts leftward
D) short-run Phillips curve shifts downward

Answer: A

Topic: The Short-Run and Long-Run Phillips Curve
Level 4: Advanced Calculations and Predictions

187) If both the unemployment rate and the inflation rate decrease, you predict that ____.

A) the expected inflation rate has increased
B) the natural rate of unemployment has decreased
C) the economy has moved along its short-run Phillips curve
D) the natural rate of unemployment has increased

Answer: B

Topic: Interest Rates and Inflation
Level 4: Advanced Calculations and Predictions

188) When the inflation rate is expected to be zero, Steve plans to lend money if the interest rate is at least 4 percent a year and Cindy plans to borrow money if the interest rate is no more than 4 percent a year. Steve and Cindy make a loan agreement for one year at an interest rate of 4 percent a year when the inflation rate is zero. But if Steve and Cindy expect an inflation rate of 1 percent a year, they would be willing to make a loan agreement at ____ a year.

A) 1 percent
B) 4 percent
C) 3 percent
D) 5 percent

Answer: D

Topic: Interest Rates and Inflation
Level 4: Advanced Calculations and Predictions

189) When the inflation rate is expected to be zero, Steve wants to lend money if the interest rate is at least 4 percent per year, and Cindy wants to borrow money if the interest rate is no more than 4 percent per year. Steve and Cindy make a loan agreement for one year anticipating the inflation rate to be 2 percent. During the year, the inflation rate is actually 1 percent. As a result, ____.

A) Steve loses
B) Steve and Cindy both gain
C) Cindy gains and Steve is unaffected
D) Steve gains

Answer: D