Econ102 Chapter 26 Practice Questions

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

Use the figure below to answer the following questions.

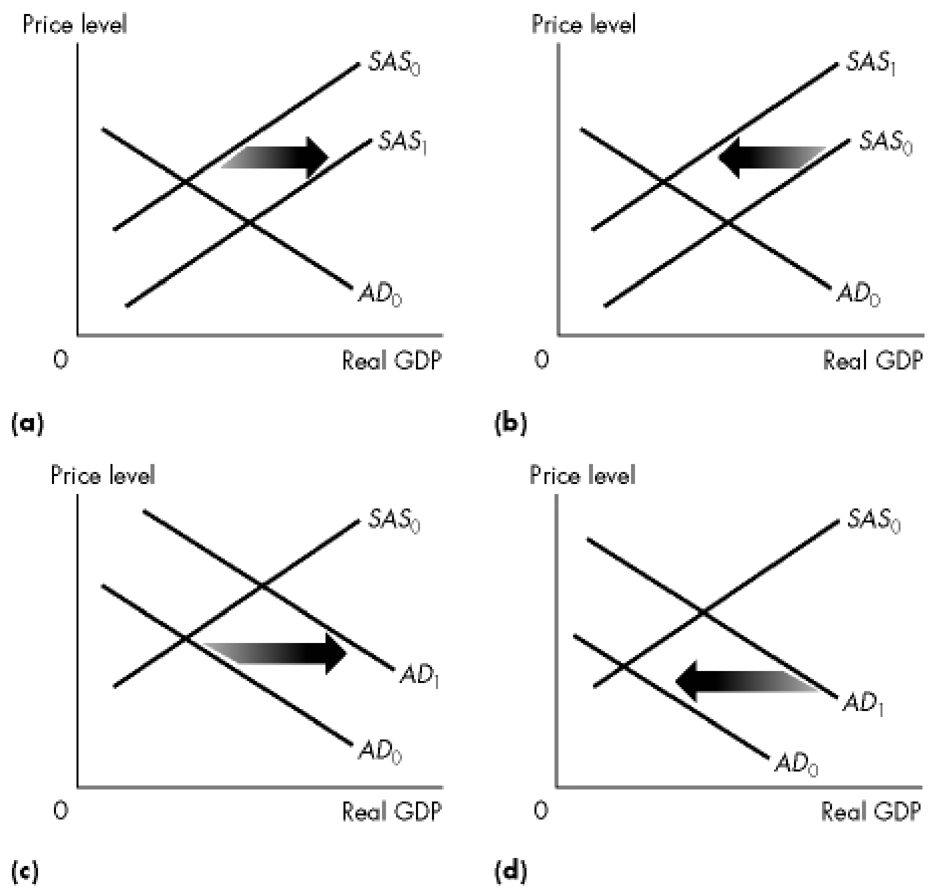

Figure 26.1.1

1. Refer to Figure 26.1.1. Which graph illustrates what happens when factor prices decrease?
   A) (a) B) (b) C) (c) D) (d) E) (a) and (b)

2. Which one of the following newspaper quotations describes a leftward shift of the *LAS* curve?
   A) "Recent higher wage settlements are expected to cause higher inflation this year."
   B) "The recent tornadoes destroyed many factories in Calgary and Edmonton."
   C) "The decrease in consumer spending may lead to a recession."
   D) "Growth has been unusually high the last few years due to more women entering the work force."
   E) "The increase in consumer spending is expected to lead to inflation, without any increase in real GDP."

3. A vertical long-run aggregate supply curve indicates that
   A) the long-run aggregate supply curve never shifts.
   B) an increase in the price level will permit the economy to achieve a higher level of output.
   C) an increase in the price level will increase technological change and economic growth.
   D) an increase in the price level will not expand an economy's output in the long run.
   E) output rates greater than the long-run output rate are unattainable.

4. The short-run aggregate supply curve indicates
   A) the relationship between the price level and real GDP demanded by consumers, investors, governments, and net exporters.
   B) the relationship between the quantity of real GDP supplied and the price level when the money wage rate, the prices of other resources, and potential GDP remain constant.
   C) the relationship between the price level and the natural unemployment rate.
   D) the various quantities of real GDP producers supply at different income levels.
   E) the relationship between the purchasing power of wages and the quantity of labour supplied by households.

5. Suppose there is an increase in the quantity of capital. As a result, the *SAS*
   A) curve does not shift but the *LAS* curve shifts leftward.
   B) and the *LAS* curves both shift rightward.
   C) curve does not shift but the *LAS* curve shifts rightward.
   D) and the *LAS* curves both shift leftward.
   E) shifts rightward, but the *LAS* curve does not shift.

6. If the money wage rate falls, then
   A) firms hire less labour.
   B) the *SAS* curve shifts rightward.
   C) the *AD* curve shifts rightward.
   D) the *LAS* curve shifts rightward.
   E) C and D.

7. Which of the following situations illustrates how fiscal policy can influence aggregate demand?
   A) The Bank of Canada raises interest rates so people plan to buy less consumer durables. As a result, the aggregate demand curve shifts leftward.
   B) Investors, anticipating an erosion of financial wealth due to inflation, decide to save more. As a result, aggregate demand decreases.
   C) The exchange rate value of the Canadian dollar rises. As a result, people living near the U.S.-Canada border increase their imports of goods and net exports decrease.
   D) The government reduces the goods and services tax. As a result, consumption expenditure increases and aggregate demand increases.
   E) Both A and C are examples of fiscal policy.

8. Disposable income is aggregate income
   A) plus transfer payments.
   B) minus taxes.
   C) minus taxes and benefits.
   D) minus fixed expenses such as rent and utilities.
   E) minus taxes plus transfer payments.

9. The quantity of real GDP demanded does *not* depend on decisions made by
   A) governments.
   B) firms.
   C) foreigners.
   D) households.
   E) suppliers.

10. Which one of the following variables is *not* held constant along a given aggregate demand curve?
A) fiscal policy
B) expectations about inflation
C) the price level
D) tax rates
E) real income

Use the figure below to answer the following questions.

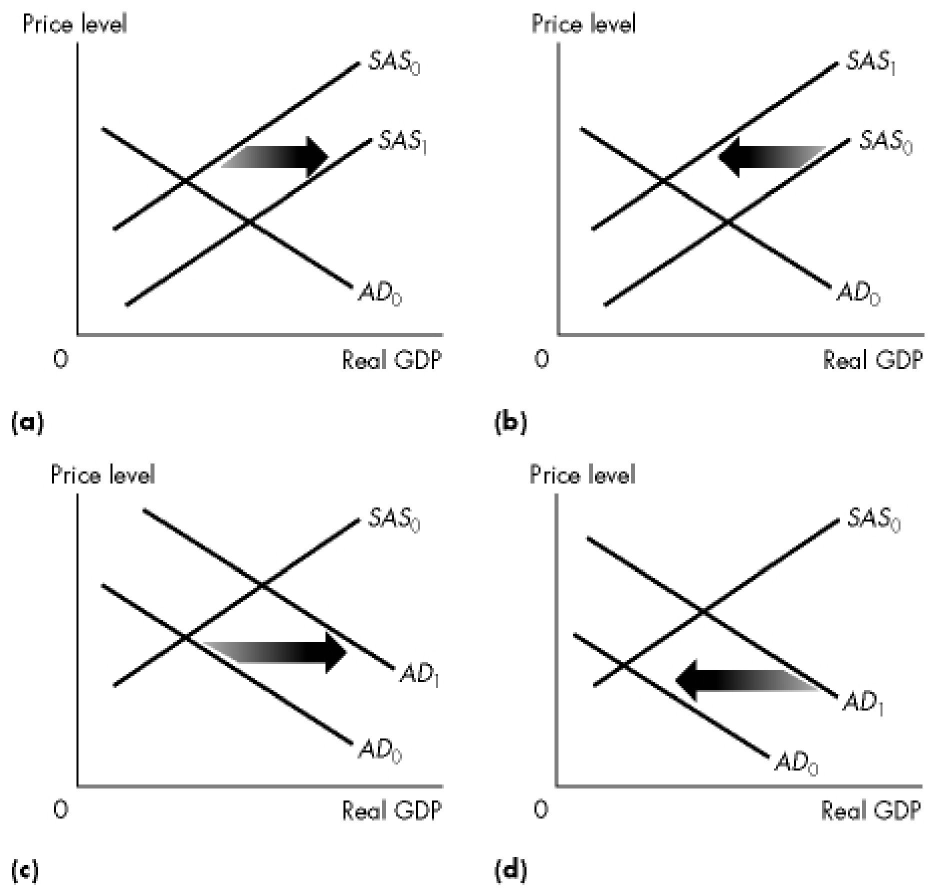

Figure 26.2.1

11. Refer to Figure 26.2.1. Which graph illustrates what happens when government expenditure increases?
A) (a)
B) (b)
C) (c)
D) (d)
E) None of the above

12. Refer to Figure 26.2.1. Which graph illustrates what happens when the quantity of money decreases?
A) (a)
B) (b)
C) (c)
D) (d)
E) None of the above

13. A recessionary gap is the amount by which
   A) demand will increase to achieve full employment at a given price level.
   B) potential GDP exceeds real GDP.
   C) the price level must adjust to achieve full employment.
   D) real GDP exceeds potential GDP.
   E) the supply curve must increase to achieve full employment at a given price level.

Use the figure below to answer the following questions.

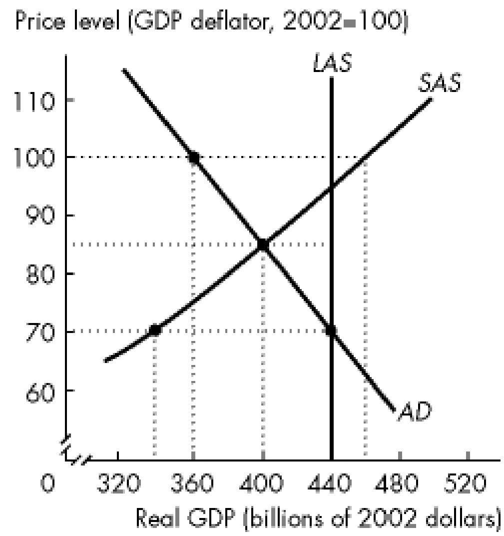

Figure 26.3.1

14. Refer to Figure 26.3.1. Short-run macroeconomic equilibrium real GDP in Econoworld is
   A) $440 billion. B) $360 billion. C) $520 billion. D) $400 billion. E) $480 billion.

15. Refer to Figure 26.3.1. Econoworld is at its short-run macroeconomic equilibrium. There is a difference between ________ real GDP and potential GDP of $________ billion.
   A) below full-employment equilibrium; 40
   B) above full-employment equilibrium; 40
   C) below full-employment equilibrium; 20
   D) full-employment equilibrium; 0
   E) above full-employment equilibrium; 20

16. Refer to Figure 26.3.1. As Econoworld automatically adjusts to long-run equilibrium, the
   A) *AD* curve shifts rightward.
   B) *LAS* curve shifts leftward.
   C) *SAS* curve shifts rightward.
   D) *AD* curve shifts leftward.
   E) *SAS* curve shifts leftward.

17. Refer to Figure 26.3.1. If Econoworld automatically adjusts to a long-run equilibrium, then in the long-run macroeconomic equilibrium
    A) the price level is 70.
    B) real GDP is $440 billion.
    C) potential GDP is greater than in the short run.
    D) actual unemployment exceeds the natural unemployment rate.
    E) both A and B.

18. Refer to Figure 26.3.1. Consider statements (1) and (2) and select the correct answer.
    (1) The economy of Econoworld is experiencing an above full-employment equilibrium.
    (2) *SAS* will automatically shift rightward as the economy adjusts to long-run equilibrium.
    A) (1) and (2) are false.
    B) (1) is true; (2) is true if unemployment is below the natural rate.
    C) (1) and (2) are true.
    D) (1) is true; (2) is false.
    E) (2) is true; (1) is false.

19. A ________ macroeconomist believes that the economy is self-regulating and always at full employment. A ________ macroeconomist believes the economy requires active help from fiscal policy and monetary policy to maintain full employment.
    A) classical; Keynesian
    B) monetarist; classical
    C) Keynesian; new Keynesian
    D) new classical; monetarist
    E) classical; monetarist

1. A
2. B
3. D
4. B
5. B
6. B
7. D
8. E
9. E
10. C
11. C
12. D
13. B
14. D
15. A
16. C
17. E
18. E
19. A