Name: ___________________________ Date: _____________

1. Which of the curves listed below is part of the dynamic *AD-AS* framework?
   A) the dynamic aggregate demand
   B) the short-run aggregate supply
   C) the Solow growth curve
   D) All of the answers are correct.

2. The Solow growth curve is represented by a vertical line at the Solow growth rate because:
   I. it does not depend on the rate of inflation.
   II. there is an underlying assumption of strong money neutrality.
   III. it does not depend on the stock of factors of production.
   A) I only
   B) I and II only
   C) II and III only
   D) I and III only

3. If prices are perfectly flexible, the economy will always be growing:
   A) at its potential rate.
   B) above its potential rate.
   C) below its potential rate.
   D) near its potential rate.

4. In the New Keynesian model, an increase in the rate of expected inflation causes:
   A) a shift of the short-run aggregate supply curve down and to the right.
   B) a shift of the short-run aggregate supply curve up and to the left.
   C) an upward movement along the short-run aggregate supply curve.
   D) a downward movement along the short-run aggregate supply curve.

5. If the growth rate of money is 3%, and the growth rate of velocity is 1%, the growth rate of nominal GDP is:
   A) 4%.
   B) 1%.
   C) 0%.
   D) 2%.

6. An increase in growth rate of money velocity will cause the dynamic aggregate demand curve to:
   A) shift inward.
   B) shift outward.
   C) not shift at all.
   D) shift randomly.

7. A negative Solow shock causes:
   A) a lower inflation rate and a lower real growth rate.
   B) a lower inflation rate and a higher real growth rate.
   C) a higher inflation rate and a lower real growth rate.
   D) a higher inflation rate and a higher real growth rate.

8. Wages are sticky when:
   A) labor unions have set wages for a certain period of time.
   B) they are not changed as often as prices.
   C) they are set according to inflation expectations that end up differing from actual inflation rates.
   D) All of the answers are correct.

9. For any given expected inflation rate, short-run aggregate supply curves show the relationship between:
   A) the money supply and growth rate of output.
   B) inflation and growth rate of output.
   C) production factors and wages.
   D) inflation and wages.

10. To experience an increase in growth along a short-run aggregate supply curve with expected inflation of 5%, the actual inflation rate would need to be:
    A) –2%.
    B) 4%.
    C) 5%.
    D) 6%.

Answer Key

1. D
2. B
3. A
4. B
5. A
6. B
7. C
8. D
9. B
10. D