CHAPTER 3

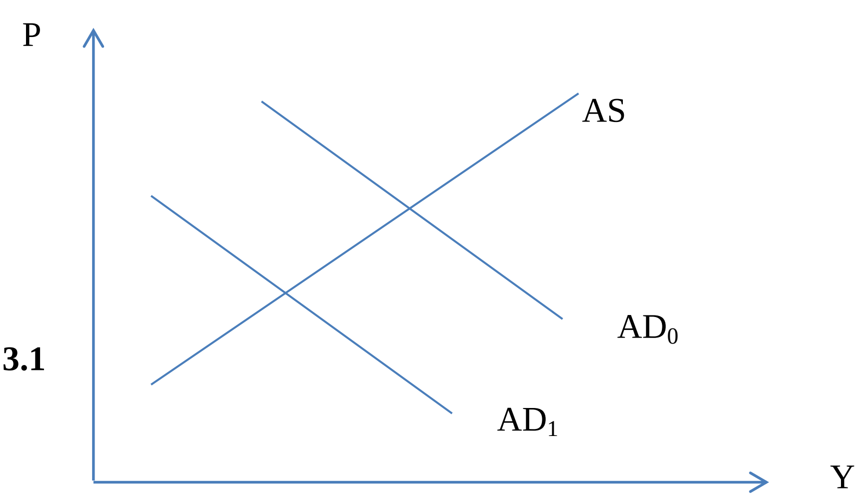
AS - AD

1. Which variable can change without causing the Aggregate Demand curve to shift?
   a. Interest rate
   b. Price
   c. Tax
   d. Money supply
2. A reason for the AD curve's negative slope is that:
   a. Everyone find out substitute goods when the price of a product they are consuming increases.
   b. People become wealthier when the price falls; hence, they are willing to buy more goods.
   c. Firms will increase supplies with goods when the price increases.
   d. When the price increases, everyone will shift from consuming foreign goods to consuming domestically produced goods.
3. According to the interest rate effect, the AD curve slopes downward because:
   a. A lower price increases the purchasing power of the amount of money people are holding; hence, they will increase their consumption.
   b. A lower price reduces the value of the amount of money people are holding; hence, they will reduce their consumption.
   c. A lower price reduces the amount of money people need to hold and increases loans. As a consequence, the interest rate decreases and investment increases.
   d. A lower price increases the amount of money people need to hold, reduces loans. As a consequence, the interest rate increases and investment reduces.
4. According to the wealth effect, the AD curve slopes downward because:
   a. A lower price increases the purchasing power of the amount of money people are holding; hence, they will increase their consumption.

b. A lower price reduces the value of the amount of money people are holding; hence, they will reduce their consumption.
c. A lower price reduces the amount of money people need to hold, increases loans. As a consequence, the interest rate decreases and investment increases.
d. A lower price increases the amount of money people need to hold, reduces loans. As a consequence, the interest rate increases and investment reduces.

5. In the model of AS-AD, a shift to the left of the AD curve might be caused by:
   a. A tax cut
   b. An increase in consumers and firms' belief in the perspective of the economy in the future
   c. An increase in nominal money supply
   d. A decrease in Government purchases
   e. Not a, b, c & d
6. In the model of AS-AD, a shift to the right of the AD curve might be caused by:
   a. A decrease in Government purchases
   b. An decrease in consumers and firms' belief in the perspective of the economy in the future
   c. An decrease in nominal money supply
   d. A decrease in tax
   e. Not a, b, c & d

Diagram 3.1



7. In the diagram 3.1, a shift from AD_0 to AD_1 can be explained by:
   a. An increase in wage
   b. A decrease in the price
   c. Investors' pessimism
   d. An increase in Government purchases
8. In the diagram 3.1, a shift from AD_0 to AD_1 can cause:
   a. An increase in yield and an decrease in real wage
   b. An increase in both yield and real wage
   c. A decrease in both yield and real wage
   d. A decrease in yield and an increase in real wage
9. When Government increases tax imposed on imported consuming goods:
   a. The AD curve shifts to the right
   b. The AD curve shifts to the left
   c. The AS curve shifts to the right
   d. The AS curve shifts to the left
10. When Government reduces tax imposed on imported inputs:
   e. The AD curve shifts to the right
   f. The AD curve shifts to the left
   g. The AS curve shifts to the right
   h. The AS curve shifts to the left
11. The level of potential output is real GDP when:
   a. There is no unemployment
   b. Investment is at natural rate
   c. The AD is at natural rate
   d. The unemployment is at natural rate
12. In the model of AS-AD, the fact that an decrease in price increases real money supply and increases the aggregate demand is performed by:
   a. The AD curve's shift to the right
   b. The AD curve's shift to the left

c. A slide along the AD curve downward

d. A slide along the AD curve upward

e. A decrease in the AD curve's slope

13. Because the LRAS curve is vertical, in the long run:

a. Real yield and price are determined by aggregate demand

b. Real yield and price only depends on aggregate supply

c. Real yield is determined by aggregate supply and price is determined by aggregate demand

d. Real yield is determined by aggregate demand and price is determined by aggregate supply

14. A vertical AS curve implies that:

a. An increase in price will not affect the economy's yield

b. The yield in the short run cannot be greater than the yield in the long run

c. An increase in price allows the economy to reach higher yield

d. An increase in price will encourage technological innovation, hence; stimulating economic growth

e. The LRAS curve will never change its position

15. In the diagram 3.2, a shift from AS_0 to AS_1 can happen by:

a. An increase in price

b. Technological innovation

c. An increase in inputs' price

d. An increase in aggregate demand

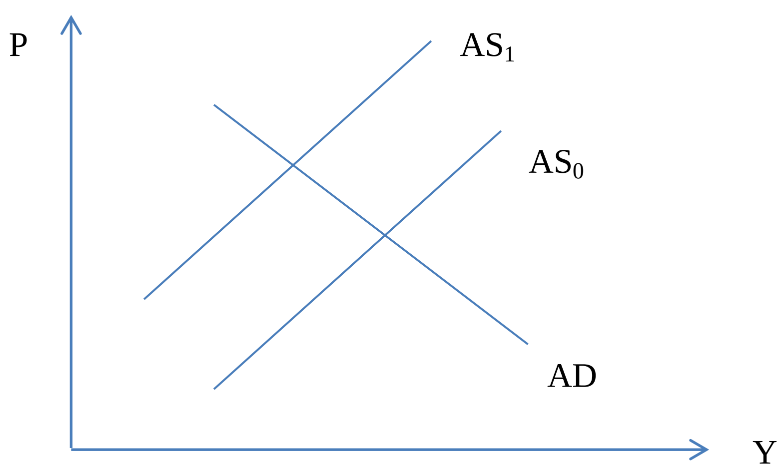


Diagram 3.2

16. The status of inflation accompanying with recession will happen if:
    a. The AS curve shifts from AS_0 to AS_1
    b. The AS curve shifts from AS_1 to AS_0
    c. Aggregate demand decreases whereas the position of the AS curve does not change
    d. Aggregate demand increases whereas the position of the AS curve does not change
17. When OPEC increases oil’s price:
    a. The inflation rate in countries importing petroleum increases
    b. Real GDP in countries importing petroleum decreases
    c. National income is redistributed from countries importing petroleum to countries exporting petroleum
    d. a, b, c are correct
    e. a, b, c are incorrect
18. Which fact will shift the SRAS curve but the LRAS curve?
    a. Changes in capital
    b. Changes in technology
    c. Changes in nominal wage
    d. Changes in labor supply
    e. No above facts satisfy the question
19. Suppose that the amount of capital in the economy decreases, at this time, the SRAS curve:
    a. And LRAS curve all shift to the left
    b. And LRAS curve all shift to the right
    c. Does not change its position, but the LRAS curve shifts to the left
    d. Does not change its position, but the LRAS curve shifts to the right
    e. Shifts to the left but the LRAS curve do not change its position
20. Technological innovation will shift:
    a. Both the SRAS curve and the AD curve to the right
    b. Both the SRAS curve and the LRAS curve to the left
    c. The SRAS curve to the right, but the LRAS curve does not change its position
    d. The LRAS curve to the right, but the SRAS curve does not change its position
21. Suppose that the economy gets balanced at the potential output. Next, Central Bank reduces money supply. According to the model of AS-AD, what will happen to the price and the output in the long run?
    a. The price increases, the output does not change compared to the initial value

b. The price decreases, the output does not change compared to the initial value
c. The output increases, the price does not change compared to the initial value
d. The output decreases, the price does not change compared to the initial value
e. Both the output and price do not change compared to the initial value

22. An economy importing petroleum firstly gets balanced at the potential output. Next, suppose that the price of crude oil increases sharply in the world market. If policymakers let the economy self- adjust, according to the model of AS-AD, what will happen with the price and the output in the long run?
    a. The price increases, the output does not change compared with the initial value
    b. The price decreases, the output does not change compared with the initial value
    c. The output increases, the price does not change compared with the initial value
    d. The output decreases, the price does not change compared with the initial value
    e. Both the output and the price do not change compared with the initial value

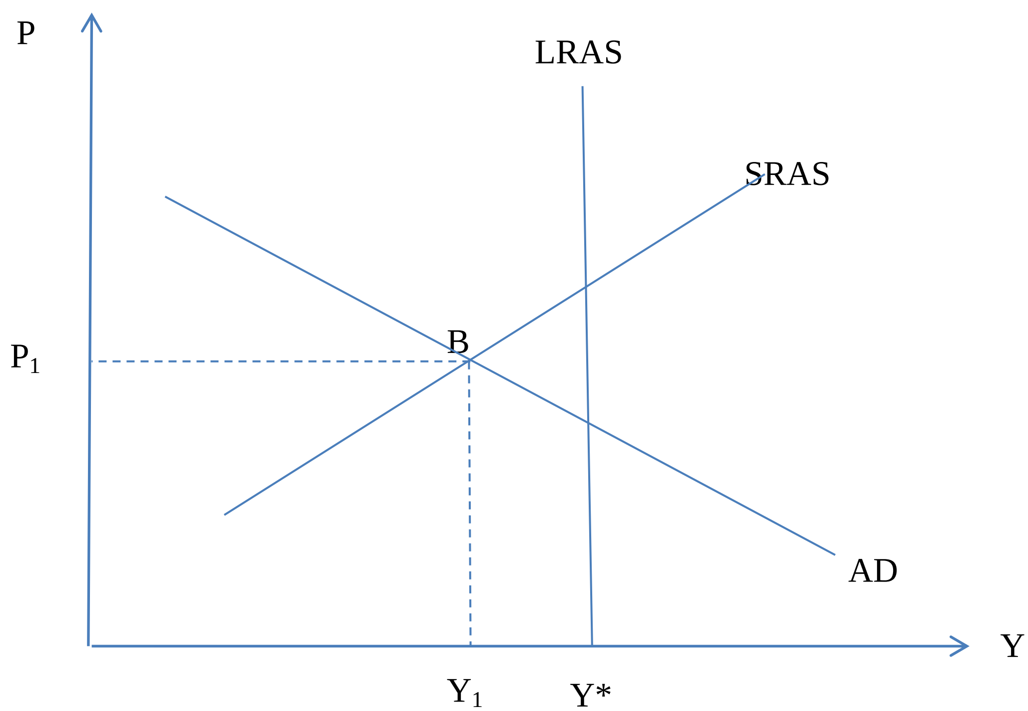


Diagram 3.3

23. Suppose that the economy is falling in crisis (at B in the diagram 3.3). To return the output back to the potential output, policymakers should:
    a. Shift the AD to the right
    b. Shift the AD to the left
    c. Shift the SRAS to the right

d. Shift the SRAS to the left

24. Suppose that the economy is falling in crisis (at B in the diagram 3.3). If policymakers allow the economy self-adjust to reach the potential output,
    a. Wage will decreases and the SRAS curve will shift to the left
    b. Wage will decreases and the SRAS curve will shift to the right
    c. Wage will increases and the AD curve will shift to the left
    d. Wage will increases and the AD curve will shift to the right
25. Suppose that the economy firstly gets balanced at the potential output. Next, suppose that households increase their consumption. According to the model of AS-AD, what will happen to the price and the output in the long run?
    a. The price increases, the output remains compared with the initial value
    b. The price decreases, the output remains compared with the initial value
    c. The output increases, the price remains compared with the initial value
    d. Both the price and the output remain compared with the initial value