

Problem 1. Define *short run* and *long run*.

Problem 2. Which of the following are implied by the LRAS? (More than one may be true.)

- (a) Government spending completely crowds out private spending
- (b) The money supply will not affect real GDP and other real variables like unemployment and the real wage
- (c) Government borrowing can affect monetary policy via the Fisher effect
- (d) The Federal Reserve can reduce efficiency wages by reducing inflation

Problem 3. If the government increases its purchases through deficit financing, what will be the long-run result (assuming wage and price flexibility)?

Problem 4. This dude said, “In the long run, we are all dead.”

- (a) Adam Smith
- (b) John Maynard Keynes
- (c) David Ricardo
- (d) Kanye West
- (e) “Macho Man” Randy Savage
- (f) Count Chocula
- (g) None of the above

Problem 5. According to Keynes (short run), which of the following is the trigger for recessions?

- (a) supply shocks
- (b) erratic monetary policy
- (c) demand shocks
- (d) wage and price rigidity

Problem 6. Shifts in the SRAS are caused by

- (a) changes in inventory
- (b) changes in production costs
- (c) changes in substitute goods
- (d) changes in the house of flies
- (e) none of the above

Problem 7. A slow self-correcting mechanism is seen as

- (a) a vertical AD
- (b) a horizontal AD
- (c) a flatter AD
- (d) a steeper AD
- (e) all of the below

Problem 8. Which of the following is a reason some economists cite against using an expansionary fiscal policy during a recession?

- (a) coordination failure
- (b) fallacy of composition
- (c) sticky wages and prices
- (d) self-correcting mechanism
- (e) always not none of the pseudo-quasi-stochastically-above

Problem 9. Stagflation poses a policy dilemma because

- (a) expansionary policy would cause inflation to increase even more
- (b) contractionary policy would cause output to fall even more
- (c) self-correcting mechanism takes a long time
- (d) all of the above
- (e) all of the above and none of the above and only some of the above and three of the below