Problem 1. Define the **short run** and the **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. Suppose a recession hits the economy and expenditure decreases. What is the **self-correcting mechanism** that restores full employment?

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

(a) Adam Smith

(b) John Maynard Keynes

(c) David Ricardo

(d) "Macho Man" Randy Savage

(e) Count Chocula

(f) None of the above

Problem 5. According to Keynes (i.e. short-run macroeconomics), 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. 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

Problem 8. Suppose MPC is 0.75. What happens in the short run and the long run if there is a balanced budget increase in government spending of 2000 units?