

**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) Count Chocula
- (e) Chef Boyardee
- (f) Little Debbie
- (g) The Pillsbury Doughboy

**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?

