

Problem 1. Which of the following statements is true about the relationship between price level and inflation rate over several years?

- (a) the price level can go up while the inflation rate is going down
- (b) the price level can go up with the inflation rate is negative
- (c) the price level can stay the same while the inflation rate is negative
- (d) the price level can go down while the inflation rate is positive
- (e) all of the above smell bad

Problem 2. U.S. data shows that in most of the past recessions,

- (a) the general price level had gone down, but inflation had remained steady
- (b) both general price level and inflation rate had increased
- (c) both general price level and inflation rate had decreased
- (d) the general price level had gone up, but inflation rate had gone down
- (e) all of the above have had bad breath

Problem 3. Which of the following statements is true about the relationship between the inflation and unemployment rates *in the long run*?

- (a) Total unemployment rate is zero regardless of inflation
- (b) total cyclical unemployment rate is zero at high rates of inflation
- (c) cyclical unemployment and inflation rates are negatively related
- (d) cyclical rate of unemployment is zero regardless of the rate of inflation
- (e) all of the above have ingrown earballs

Problem 4. Which of the following statements is true about the *short-run* relationship between unemployment and inflation rates?

- (a) in the case of a demand shock, they will both move in the same direction
- (b) in the case of a demand shock, they will move in opposite directions
- (c) in the case of a demand shock, unemployment rate will change but the inflation rate will remain the same
- (d) in the case of a demand shock, inflation rate will change but the unemployment rate will remain the same
- (e) all of the above have sweet mullets

Problem 5. What does the (short-run) Phillips Curve show?

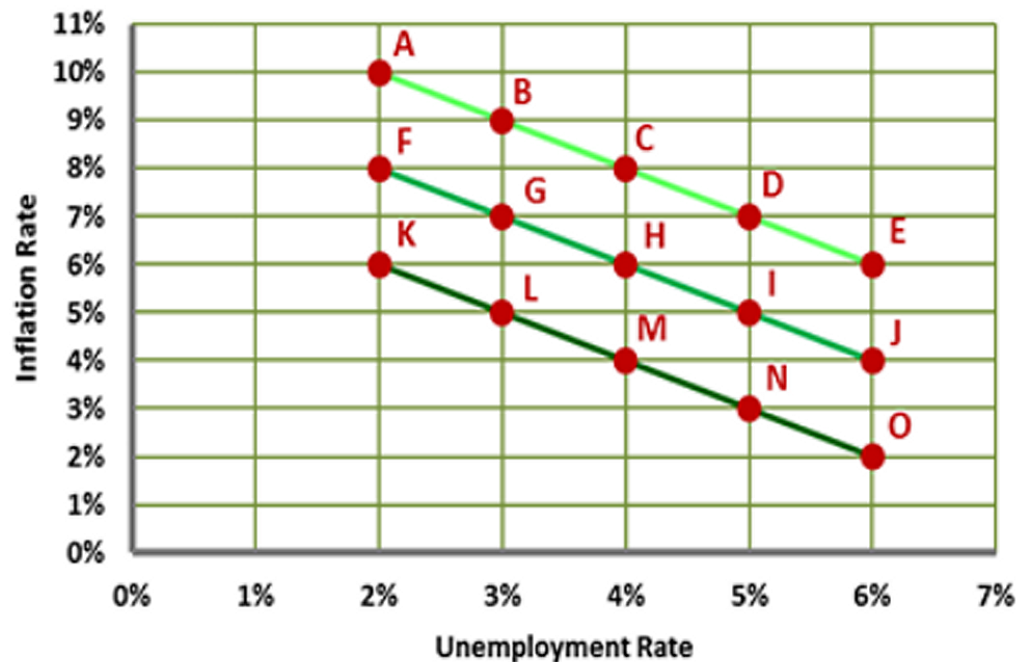
- (a) it shows a positive relationship between the rate of growth of money supply and the rate of inflation
- (b) it shows a positive relationship between the rate of unemployment and the rate of inflation
- (c) it shows a negative relationship between the rate of unemployment and the rate of inflation
- (d) it shows a positive relationship between the rate of unemployment and the rate of change of Cambridge k
- (e) the curvature of Phillip's spine

Problem 6.



Suppose the natural rate of unemployment is 4%. If the actual rate of inflation equals the expected rate of inflation, then the economy could be at which points?

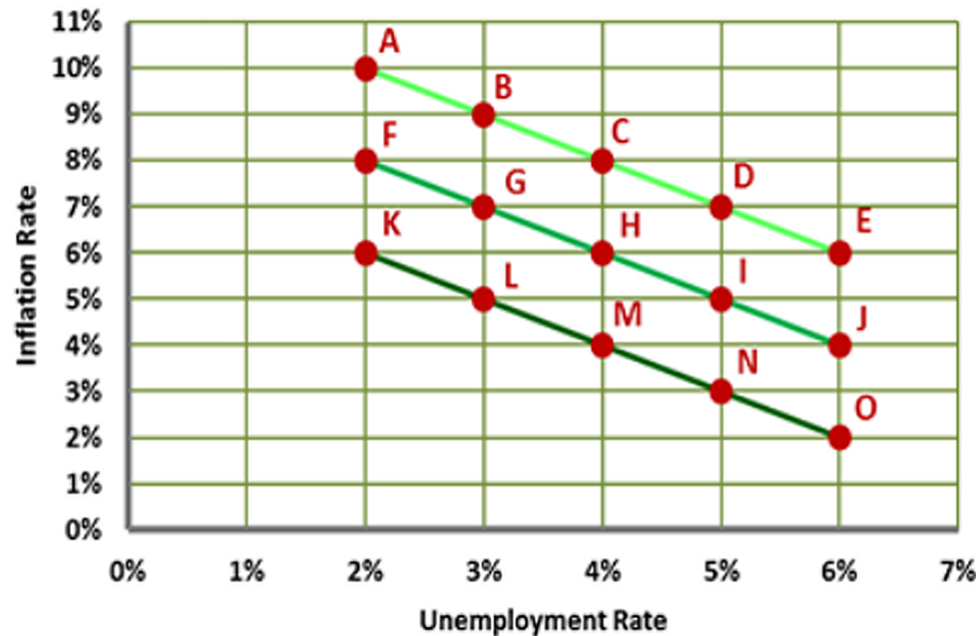
Problem 7.



Suppose $u_n = 4\%$, $m = 7\%$, $g = 3\%$. The economy is in long-run equilibrium. Which event could cause the economy to move to point K in the short run?

- (a) an increase in the money supply
- (b) an increase in taxes
- (c) a decrease in transfer payments
- (d) a decrease in government spending
- (e) one too many clowns crammed into a clown car

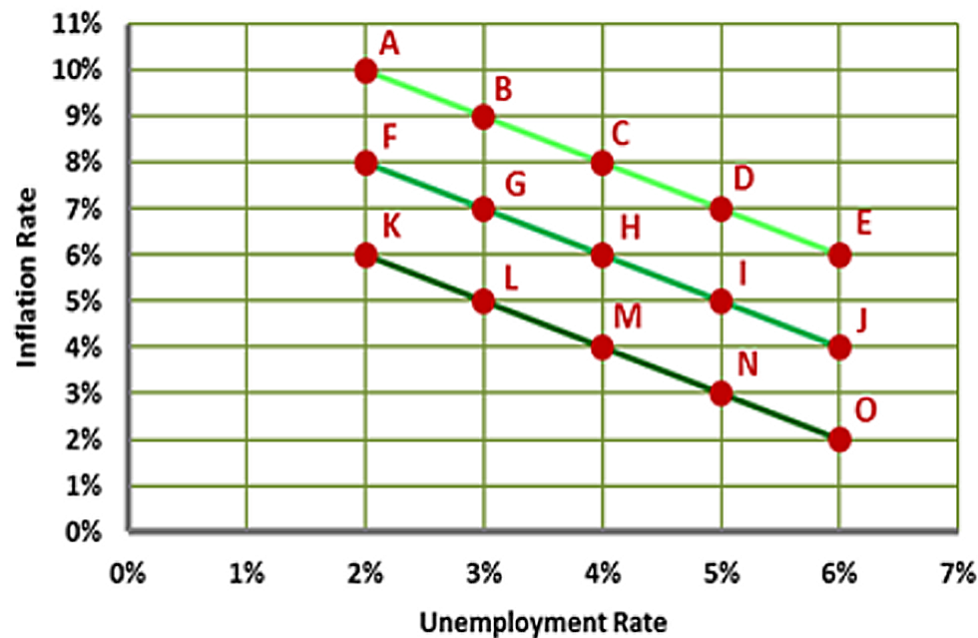
Problem 8.



The natural rate of unemployment is 4%. The growth rate of the money supply is $m = 7\%$ and real GDP grows at the rate of $g = 3\%$. The economy is in long-run equilibrium. Which of the following events could cause the economy to move to point H in the short run?

- (a) a temporary increase in money supply growth to 9%
- (b) a permanent increase in money supply growth to 9%
- (c) a temporary increase in money supply growth to 11%
- (d) a permanent increase in money supply growth to 11%

Problem 9.



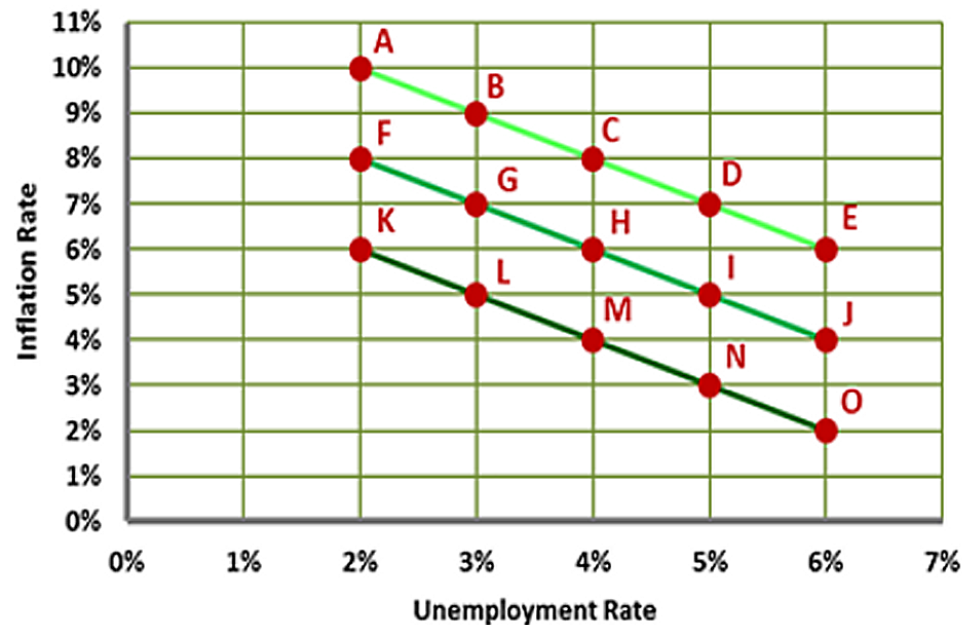
The natural rate of unemployment is 4%. The rate of money supply growth is 8% and the real GDP grows at the rate of 2%. The economy is in long-run equilibrium. What event would cause the economy to move from point D and then to H?

- (a) an increase in expected future profits
- (b) an increase in uncertainty about future profits
- (c) a negative oil shock
- (d) a decrease in real wealth

Problem 10. What is the major *policy dilemma* of an adverse supply shock?

- (a) the self-correcting mechanism does not work fast enough
- (b) an expansionary demand management policy to cure unemployment will worsen the inflation problem
- (c) long and variable policy lags
- (d) crowding out of private spending
- (e) none of the above

Problem 11. The natural rate of unemployment is 4%. Which of the following sequences of points best describes the processes of the Volcker Disinflation?



- (a) $C \rightarrow H \rightarrow M$
- (b) $C \rightarrow K \rightarrow L \rightarrow M$
- (c) $C \rightarrow G \rightarrow H$
- (d) $C \rightarrow E \rightarrow I \rightarrow M$
- (e) $A \rightarrow B \rightarrow C \rightarrow D \rightarrow E \rightarrow F \rightarrow G \rightarrow H \rightarrow I \rightarrow J \rightarrow K \rightarrow L \rightarrow M$

Problem 12. The best TA ever is

- (a) Özge
- (b) Hanguo
- (c) William
- (d) Cap'n Crunch
- (e) none of the above