1. In the Keynesian model, the price level is ___________; in the aggregate demand and supply model, the price level is _______________.
   A) fixed; fixed  
   B) flexible; flexible  
   C) flexible; fixed  
   D) fixed; flexible

2. The aggregate demand curve slopes _____ and has _____ on the vertical axis.
   A) downward; output  
   B) downward; the price level  
   C) upward; output  
   D) upward; the price level

3. A falling aggregate price level ____ demand for a country's exports and therefore _____ output demanded.
   A) increases; increases  
   B) increases; reduces  
   C) reduces; increases  
   D) reduces; reduces

Use the following to answer question 4:

**Figure: Predicting Aggregate Demand Shifts**
4. (Figure: Predicting Aggregate Demand Shifts) Which of the following would shift the aggregate demand curve from AD$_1$ to AD$_2$?
   A) a tax increase  
   B) a decrease in interest rates  
   C) a decrease in government purchases  
   D) a worsening of consumer expectations about the future

5. In the long run, attempts to expand beyond an economy's natural rate of unemployment tend to result in:
   A) increased inflation.  
   B) increased output.  
   C) both increased output and increased inflation.  
   D) neither increased output nor increased inflation.

6. (Figure: Determining SRAS Shifts)

   ![Diagram](image)

   If the government raises taxes or increases regulations, the short-run aggregate supply curve will shift from SRAS$_0$ to _____ and the price level will be at _____.
   A) SRAS$_1$; $P_0$  
   B) SRAS$_1$; $P_1$  
   C) SRAS$_2$; $P_1$  
   D) SRAS$_2$; $P_2$
7. (Figure: Determining SRAS Shifts 3)

Which of the following might be a cause of the change in short-run aggregate supply?

A) Unions successfully negotiate higher wages.
B) Subsidies to firms increase.
C) Consumer incomes drop.
D) Workers and firms believe that inflation is going to decrease.

8. Which of the following will shift the aggregate supply curve to the right?

A) the development of a cartel in the production of soybeans
B) an increase in corporate taxes
C) increased investment in human capital
D) an increase in the price of garbage collection
9. (Figure: Determining SRAS Shifts) If there is a decrease in input prices, the short-run aggregate supply curve will shift from SRAS$_0$ to _____ and the price level will become _____.

A) SRAS$_1$; $P_0$
B) SRAS$_1$; $P_1$
C) SRAS$_2$; $P_1$
D) SRAS$_2$; $P_2$
10. (Figure: Shifting SRAS and AD)

What economic event is represented if full employment GDP occurs at point (a)?
A) a recession
B) demand-pull inflation
C) cost-push inflation
D) deflation

11. In Productovia, aggregate demand increases and aggregate supply decreases. Based on the shifts in these two curves, what is a likely outcome?
A) deflation
B) higher taxes
C) lower imports
D) inflation

12. Suppose when John’s income increased from $10,000 to $15,000, his consumption increased from $3,000 to $4,500. What is the value of his marginal propensity to save?
A) 0.7
B) 0.3
C) 0.2
D) 0.8
13. **(Figure: Understanding Aggregate Graphs 2)**

This economy is at point \( a \). This figure depicts an economy:
A) in neither short-run nor long-run equilibrium.
B) in short-run equilibrium only.
C) in both short-run and long-run equilibrium
D) in long-run equilibrium only.

14. If the marginal propensity to consume is 0.9, by how much will $100 of government spending increase GDP?
A) $90
B) $100
C) $1,000
D) $900

15. Which of the following statements regarding discretionary and mandatory spending is CORRECT?
A) Discretionary spending is authorized by permanent laws.
B) Mandatory spending may act as an automatic stabilizing force in the macroeconomy.
C) Discretionary spending has steadily grown as a percentage of the federal budget since the 1960s.
D) Mandatory spending programs include national defense, income security, and education.

16. Most studies estimate the overall multiplier of the 2009 stimulus to be between:
A) 0 and 1.
B) 1.5 and 2.
C) 3 and 3.5.
D) 5 and 6.
17. **Figure: Understanding SRAS and LRAS Shifts**

(Figure: Understanding SRAS and LRAS Shifts) This graph shows:
A) demand-side fiscal policies.
B) supply-side fiscal policies.
C) a combination of supply-side and demand-side fiscal policies.
D) None of the answers is correct.
18. **Figure: Laffer Curve 2**

(Figure: Laffer Curve 2) The figure shows the Laffer curve for an economy whose tax rate is 80%. Supply-side economists would argue that the government should:

A) reduce the tax rate to 40%.
B) reduce the tax rate to 20%.
C) keep the tax rate at 80%.
D) reduce the tax rate to 60%.

19. When a firm can _____ its capital equipment over a shorter period, it cuts its taxes _____.
   A) appreciate; later
   B) appreciate; now
   C) depreciate; now
   D) depreciate; later

20. Automatic stabilizers include all of the following EXCEPT:
   A) tax revenues.
   B) transfer payments.
   C) increased research and development.
   D) All of the answers are correct.
21. The _____ lag is the time policymakers must wait for economic data to be collected, processed, and reported.
   A) information
   B) recognition
   C) implementation
   D) decision

22. Public choice theorists primarily examine the:
   A) choices consumers make when in public.
   B) ability of government to be efficient.
   C) relationship between fiscal and monetary policies.
   D) relationship between economics and political decision making.

23. If a government collects $1,400 in tax revenue and spends $1,600, it has:
   A) a surplus of $200.
   B) a deficit of $200.
   C) a balanced budget of $200.
   D) a public debt of $200.

24. Suppose the Treasury sells $10 billion worth of securities to the Social Security Administration and $15 billion to the general public. This sale added _______ billion to gross public debt and _______ billion to the debt held by the public.
   A) $15; $15
   B) $10; $15
   C) $15; $25
   D) $25; $15

25. Economists who favor a(n) _____ approach to the federal budget believe that the first priority of policymakers should be to keep the economy at full employment with stable prices.
    A) functional finance
    B) annually balanced budget
    C) cyclically balanced budget
    D) laissez-faire
26. Suppose a government finances its expansionary fiscal policy by borrowing from the public. Joseph is concerned that this will increase the demand for loanable funds, drive up interest rates, and leave less loanable money available for consumers and businesses. Joseph is concerned about the:
   A) boomerang effect.
   B) expansionary countereffect.
   C) ricochet effect.
   D) crowding-out effect.

27. The interest paid on public debt held by __________ is a real claim on our goods and services.
   A) U.S. banks
   B) foreigners
   C) U.S. citizens
   D) the Federal Reserve

28. As a result of the crowding-out effect, interest rates _____ and private sector borrowing _____.
   A) increase; increases
   B) decrease; increases
   C) decrease; decreases
   D) increase; decreases

29. A higher interest rate __________ consumption, investment, and ____________, which __________ aggregate demand
   A) decreases; exports; decreases
   B) decreases; imports; decreases
   C) increases; exports; increases
   D) increases; imports; increases

30. If the Fed pursues an expansionary monetary policy:
   A) the dollar will rise.
   B) U.S. imports from other countries will rise.
   C) U.S. exports to other countries will rise.
   D) aggregate supply will increase.
31. Which action is the Fed most likely to take to curb inflation?
   A) lower the discount rate
   B) lower reserve requirements
   C) raise taxes
   D) sell securities in the open market

32. In the equation of exchange, if $M = $2 trillion, $P = 1.5$, and $Q = $8 trillion:
   A) the velocity of money $(V) = 6$. 
   B) nominal GDP is $16$ trillion. 
   C) the velocity of money $(V) = 4$. 
   D) real GDP is $12$ trillion.

33. A nominal GDP of $265$ billion and an $M_1$ of $12$ billion result in a velocity of:
   A) 277. 
   B) 3,108. 
   C) 22.08. 
   D) 253.

34. In a liquidity trap:
   A) monetary policy is very effective in changing income and output. 
   B) fiscal policy is ineffective in changing income and output. 
   C) monetary policy is ineffective in changing income and output. 
   D) monetary policy is somewhat effective in changing income and output in the short run.

35. Milton Friedman's suggestion to keep $M_1$ and $M_2$ growing at a steady rate regardless of economic conditions is a:
   A) monetary rule. 
   B) constant elasticity rule. 
   C) blind economic policy. 
   D) straight path rule.

36. The Taylor rule:
   A) is equivalent to the inflation rule. 
   B) targets the federal funds rate. 
   C) is the official rule adopted in the Federal Reserve Act. 
   D) targets GDP and employment.
37. If the Federal Reserve tries to target inflation near 2%, the inflation rate is 3%, and output is 3% below potential GDP, the target federal funds rate according to the Taylor rule is:
   A) 3%.
   B) 4%.
   C) 5%.
   D) 6%.

38. After the banking crisis of 2008, the financial services industry had:
   A) lower capital requirements.
   B) fewer restrictions on leverage.
   C) higher returns on equity.
   D) tighter regulations.

39. Which of the following was NOT a factor leading to the 2007–2008 financial crisis?
   A) low interest rates encouraging a housing boom
   B) underestimation of the level of risk inherent in the mortgage market
   C) lack of faith in the ability of the U.S. Treasury to pay on government bonds
   D) investors buying trillions of dollars of assets that depended on rising housing values

40. Which of the following actions by the Fed is NOT considered to be one of the Fed's normal monetary policy tools?
   A) buying Treasury securities
   B) lowering the federal funds rate
   C) making loans to banks at the discount rate
   D) buying mortgage-backed securities
1. D
2. B
3. A
4. B
5. A
6. D
7. A
8. C
9. B
10. B
11. D
12. A
13. C
14. C
15. B
16. B
17. B
18. A
19. C
20. C
21. A
22. D
23. B
24. D
25. A
26. D
27. B
28. D
29. A
30. C
31. D
32. A
33. C
34. C
35. A
36. B
37. B
38. D
39. C
40. D