

Sample Multiple-Choice Questions

Circle the letter of each correct answer.

- Which of the following best describes aggregate supply?
 - The amount buyers plan to spend on output
 - A schedule showing the relationship between inputs and outputs
 - A schedule showing the trade-off between inflation and unemployment
 - A schedule indicating the level of real output that will be purchased at each possible price level
 - A schedule indicating the level of real output that will be produced at each possible price level
- A change in which of the following will cause the aggregate demand curve to shift?
 - Energy prices
 - Productivity rates
 - Consumer wealth
 - Prices of inputs
 - Prices of consumer goods
- The short-run aggregate supply curve will shift to the right when
 - energy prices increase.
 - government regulation increases.
 - prices of inputs decrease.
 - investment spending decreases.
 - productivity rates decrease.
- A rightward shift in the aggregate demand curve with a horizontal aggregate supply curve will cause employment and the price level to change in which of the following ways?

Employment	Price Level
(A) Increase	Increase
(B) Increase	Decrease
(C) Increase	No change
(D) Decrease	No change
(E) No change	No change
- An increase in the capital stock will cause the
 - aggregate demand curve to shift leftward.
 - production possibilities curve to shift in.
 - Phillips curve to shift out.
 - long-run aggregate supply curve to shift rightward.
 - consumption function to shift down.
- Which of the following is a fiscal policy that would increase aggregate demand in the Keynesian model?
 - A decrease in personal income taxes
 - A decrease in government spending
 - An increase in corporate income taxes
 - A purchase of government bonds by the Federal Reserve
 - A sale of government bonds by the Federal Reserve

7. An increase in labor productivity would most likely cause real gross domestic product and the price level to change in which of the following ways?

	Real GDP	Price Level
(A)	Increase	Increase
(B)	Increase	Decrease
(C)	Increase	No change
(D)	Decrease	Increase
(E)	Decrease	No change

8. If Maria Escalera's disposable income increases from \$600 to \$650 and her level of personal-consumption expenditures increase from \$480 to \$520, you may conclude that her marginal propensity to

(A) consume is 0.8.
 (B) consume is 0.4.
 (C) consume is 0.25.
 (D) save is 0.8.
 (E) save is 0.25.

9. In the Keynesian aggregate-expenditure model, if the MPC is 0.75 and gross investment increases by \$6 billion, equilibrium GDP will increase by

(A) \$6 billion.
 (B) \$8 billion.
 (C) \$12 billion.
 (D) \$24 billion.
 (E) \$42 billion.

10. In the Keynesian aggregate-expenditure model, the simple spending multiplier can be calculated by dividing

(A) the initial change in spending by the change in real gross domestic product (GDP).
 (B) the change in real gross domestic product by the initial change in spending.
 (C) one by one minus the marginal propensity to save.
 (D) one by one plus the marginal propensity to consume.
 (E) the propensity to save by the propensity to consume.

11. Which of the following will cause the consumption schedule to shift upward?

(A) An increase in the amount of consumer indebtedness
 (B) A reduction in the wealth or assets held by consumers
 (C) An expectation of future declines in the consumer price index
 (D) An expectation of future shortages of essential consumer goods
 (E) A growing belief that personal income will decline in the future

12. The investment demand curve will shift to the right as the result of

(A) excess productive capacity.
 (B) an increase in corporate business taxes.
 (C) businesses becoming more optimistic with respect to future business conditions.
 (D) recessions in foreign nations that trade with the United States, causing a lower demand for U.S. products.
 (E) a decrease in the real interest rate.

13. Automatic stabilizers in the economy include which of the following?

I. A progressive personal income tax
II. Unemployment compensation
III. Congressional action that increases tax rates

- (A) I only
(B) II only
(C) III only
(D) I and II only
(E) I and III only

14. In order to be called an automatic, or built-in, stabilizer, which of the following must taxes automatically do in a recessionary period and in an inflationary period?

Recessionary Period	Inflationary Period
(A) Decrease	Decrease
(B) Decrease	Increase
(C) Increase	Decrease
(D) Increase	Increase
(E) No change	No change

15. The balanced-budget multiplier indicates that

- (A) equal increases in government spending and taxation will make a recession worse.
(B) equal increases in government spending and taxation will increase total spending.
(C) government deficits might have a contractionary impact on the economy.
(D) supply will necessarily create its own demand.
(E) the level of gross domestic product is never less than the level of disposable income.

16. In which of the following ways will increases in short-run aggregate supply change the price level and unemployment?

	Price Level	Unemployment
(A)	Increase	No change
(B)	Decrease	Decrease
(C)	Decrease	Increase
(D)	Decrease	No change
(E)	No change	Increase

17. Assume the aggregate supply curve is upward sloping and the economy is in a recession. If the government increases both taxes and government spending by \$25 billion, the price level and real GDP will most likely change in which of the following ways?

	Price Level	Real GDP
(A)	Increase	Increase
(B)	Increase	Decrease
(C)	Increase	No Change
(D)	Decrease	Decrease
(E)	Decrease	No Change