MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) If the economy is at potential GDP, the long-run effect of an increase in the quantity of money
   A) increases both real GDP and the price level.
   B) increases the price level with no increase in real GDP.
   C) increases nominal GDP by decreasing real GDP as the price level increases.
   D) increases real GDP with no increase in the price level.

2) If an economy has a velocity of circulation of 3, then
   A) the quantity of money is 3 times real GDP.
   B) in a year the average dollar is exchanged 3 times to purchase goods and services in GDP.
   C) the quantity of money is $3 for every dollar of GDP.
   D) nominal GDP is 1/3 the size of the quantity of money.

3) Suppose that $M = 300$, $P = 150$, and $Y = 6$. Then the velocity of circulation equals
   A) 0.02.
   B) 3.00.
   C) 0.50.
   D) 2.00.

4) The quantity theory asserts that real GDP is
   A) not influenced by the quantity of money.
   B) equal to nominal GDP divided by the quantity of money.
   C) never different from potential GDP.
   D) equal to nominal GDP multiplied by the quantity of money.

5) The data show that money growth and inflation are
   A) positively correlated.
   B) independent phenomena.
   C) not correlated.
   D) negatively correlated.

6) Inflation is a process when the
   A) price level is rising.
   B) value of real GDP increases.
   C) value of real GDP decreases.
   D) value of money is rising.

7) Which of the following describes inflation correctly?
   A) a persistent increase in the price level
   B) the fall in the price level from one year to another year
   C) a one-time jump in the price level
   D) an increase in real wages

8) Inflation can be started by
   A) a decrease in aggregate supply or an increase in aggregate demand.
   B) an increase in aggregate supply or an increase in aggregate demand.
   C) a decrease in aggregate supply or a decrease in aggregate demand.
   D) an increase in aggregate supply or a decrease in aggregate demand.

9) Demand-pull inflation starts with a shift of the
   A) $AD$ curve leftward.
   B) $SAS$ curve leftward.
   C) $AAS$ curve rightward.
   D) $AD$ curve rightward.
10) If an economy at potential GDP experiences a demand shock that shifts the aggregate demand curve rightward, there will be
   A) upward pressure on money wage rates.
   B) an eventual leftward shift in the short-run aggregate supply curve.
   C) unemployment below the natural rate.
   D) All of the above answers are correct.

11) If the Fed responds to an increase in aggregate demand by increasing the quantity of money,
   A) output will begin to decrease more rapidly than otherwise.
   B) wages will fall to reduce the unemployment.
   C) nothing happens because aggregate demand had already increased.
   D) there may be continued inflation.

12) Assuming that GDP currently equals potential GDP, a cost-push inflation could result from which of the following?
   A) a large crop failure that boosts the prices of raw food materials
   B) a decrease in tax rates
   C) an increase in the nation's capital stock
   D) an increase in the labor force

13) Cost-push inflation starts with
   A) a decrease in aggregate demand.
   B) an increase in short-run aggregate supply.
   C) an increase in aggregate demand.
   D) a decrease in short-run aggregate supply.

14) An increase in the price of a resource such as oil
   I. shifts the aggregate demand curve leftward.
   II. shifts the long-run aggregate supply curve rightward.
   III. shifts the short-run aggregate supply curve leftward.
   IV. increases the price level and decreases real GDP in the short run.
   A) III only is correct.
   B) Both III and IV are correct.
   C) Both I and II are correct.
   D) I only is correct.

15) Stagflation is the result of
   A) a decrease in aggregate demand.
   B) an increase in short-run aggregate supply.
   C) an increase in aggregate demand.
   D) a decrease in short-run aggregate supply.

16) If the Fed responds to cost push inflation by increasing the money supply the result could be
    real GDP at a level
   A) above potential GDP but at a lower price level.
   B) at potential GDP but at a higher price level.
   C) at potential GDP but at a lower price level
   D) below than potential GDP but a higher price level.

17) Unanticipated inflation ________ in a redistribution of income between employers and workers and ________ in a redistribution of income between borrowers and lenders.
   A) results; results
   B) does not result; does not result
   C) does not result; results
   D) results; does not result
18) Lenders gain in the capital market when
   A) the inflation rate was less than expected.
   B) there is an anticipated decrease in the real interest rate.
   C) the inflation rate was more than expected.
   D) None of the above answers is correct.

19) Rational expectations are
   A) possible to make and are always accurate.
   B) impossible to make because they are assumed to be always accurate.
   C) used in the labor market but not in the financial markets.
   D) based on all relevant information.

20) If people correctly anticipate an increase in government purchases of goods and services so that
   their money wage rate adjusts immediately, then, assuming the economy is initially at potential GDP,
   A) real GDP remains at potential GDP, there is no change in the price level, and the real wage
   rate rises in the short run.
   B) real GDP, the price level, and the real wage rate all increase in the short run.
   C) real GDP remains at potential GDP.
   D) real GDP and the price level will increase in the short run, but the real wage rate will fall.

21) The anticipated inflation rate is 5 percent. In order for purchasing power to remain constant,
   the money wage rate must rise by
   A) 5 percent.    B) 7 percent.    C) 12 percent.    D) 2 percent.

22) The long-run Phillips curve is
   A) vertical at potential GDP.
   B) the vertical sum of the short-run Phillips curves.
   C) vertical at the natural rate of unemployment.
   D) the horizontal sum of the short-run Phillips curves.

23) A decrease in the expected inflation rate shifts the short-run Phillips curve
   A) downward and shifts the long-run Phillips curve leftward.
   B) upward and shifts long-run Phillips curve rightward.
   C) upward and creates a movement upward along the long-run Phillips curve.
   D) downward and creates a movement downward along the long-run Phillips curve.

24) The reason that nominal interest rates rise with anticipated inflation is
   A) lenders require higher nominal interest rates to offset the fall in the value of money.
   B) demand-pull inflation.
   C) cost-push inflation.
   D) the wage/price spiral.

25) If the nominal interest rate is 8 percent and inflation is 3 percent, what is the real interest rate?
   A) 5 percent    B) 8 percent    C) 11 percent    D) 3 percent
Answer Key
Testname: MACRO QUIZ 5

1) B
2) B
3) B
4) A
5) A
6) A
7) A
8) A
9) D
10) D
11) D
12) A
13) D
14) B
15) D
16) B
17) A
18) A
19) D
20) C
21) A
22) C
23) D
24) A
25) A