Instructions:

This is the on-line Multiple Choice Quiz for Chapter 15. Please do the following:

Step 1:  Go to the special codes section on your score sheet

- Write your section number (1, or 4, or 5) under the letter K. Also fill out the appropriate bubble corresponding to your section number in column K.
- Go to the columns O and P. Enter for this chapter, 1 in the O column, and 5 in the P column. Also fill out the appropriate bubbles below in columns O and P.

Step 2: Enter your university identification number, using numbers and corresponding bubbles.

Step 3: Enter your name, using letters and corresponding bubbles.

Step 4: Answer all 35 questions.

Step 5: Check the important dates link on the class home page for the availability and closing dates for the successive on-line multiple choice quizzes.

Step 6: Hand in your score sheets in class, to your TA’s or to myself, in class, or outside my office, Heady Hall 281, no later than the posted closing date and hour (5 p.m.)

We will use the following grading scale:

A = 35, 34, 33, 32, 31, 30
B = 29, 28, 27, 26, 25, 24
C = 23, 22, 21, 20, 19, 18
D = 17, 16, 15, 14, 13, 12
F = less than 12

Note: All MC quizzes will be discussed in detail in class for each section (1, 4, or 5) prior to the posted Friday 5 p.m. closing date and hour. Bring your printed test and score sheet to that class session for that purpose.
MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) A business cycle is
   A) the trend increase in real GDP.
   B) a periodic and predictable fluctuation in real GDP about its trend.
   C) an irregular fluctuation in real GDP about its trend.
   D) the downward trend in real GDP.

2) Since 1920, the average length of a recession has been about _______ and the average length of an expansion has been about _______.
   A) 6 months; 3 years  B) 1 year; 4 years  C) 1 month; 4 years  D) 18 months; 3 years

3) During the Great Depression, real GDP fell by
   A) 13 percent.  B) 50 percent.  C) 33 percent.  D) 20 percent.

4) A business cycle mechanism
   A) eliminates the effects of economic shocks.
   B) transmits economic shocks to the economy.
   C) starts business cycle fluctuations.
   D) ends business cycle fluctuations.

5) Which of the following describes economists’ abilities to forecast or explain the business cycle?
   A) Economists agree that increases in investment precede an economic expansion.
   B) Economists are very successful in forecasting when recessions will end.
   C) Economists agree that consumption plays an important role in predicting recessions.
   D) Economists are very successful in forecasting when recessions will start.

6) During a recession, investment is
   A) high and the capital stock grows rapidly.
   B) low and the capital stock grows rapidly.
   C) low and the capital stock grows slowly.
   D) high and the capital stock grows slowly.

7) According to _______ the business cycle is the result of shifts in the economy’s AD curve.
   A) the Keynesian, monetarist, and rational expectations theories
   B) only the Keynesian and monetarist theories
   C) the Keynesian theory only
   D) the Keynesian, monetarist, and real business cycle theories

8) In the Keynesian business cycle theory, business cycles begin with changes in
   A) the public’s expectations about Fed policies.
   B) inflation expectations.
   C) business expectations about sales and profits.
   D) consumer sentiment.
9) Because the Keynesian business cycle theory proposes a(n) _______ short-run aggregate supply curve, a decrease in aggregate demand results in _______.
   A) vertical; the price level rising     B) horizontal; the price level rising
   C) horizontal; no change in the price level  D) upward sloping; the price level falling

10) Which of the following are main elements of Keynesian business cycle theory?
    I.      sticky wages
    II.    horizontal short-run aggregate supply curve
    III.  horizontal long-run aggregate supply curve
   A) I       B) II and III   C) I, II, and III       D) I and II

11) According to the Keynesian business cycle theory, which component of aggregate demand is most volatile and hence the primary source of the business cycle?
    A) investment spending      B) government spending
    C) net exports               D) consumption spending

12) In Keynesian business cycle theory, the money wage rate
    A) rises when unemployment is less than the natural rate and falls if unemployment exceeds the natural rate.
    B) does not change if unemployment is less than the natural rate but falls if unemployment exceeds the natural rate.
    C) rises when unemployment is less than the natural rate but does not change if unemployment exceeds the natural rate.
    D) never changes.

13) In Keynesian business cycle theory, the money wage rate is _______ in the downward direction and _______ in the upward direction.
    A) rigid; flexible                  B) flexible; rigid
    C) market-determined; flexible     D) flexible; market-determined
14) In the above figure, the economy is initially at point A and investment decreases. In Keynesian business cycle theory, the economy will move to point

A) C.  
B) B.  
C) E.  
D) D.

15) In the above figure, suppose the economy is at point B and policy makers want to end this recession by moving to point A. In Keynesian business theory, this movement could be accomplished by

A) decreasing taxes so that investment increases.  
B) increasing the multiplier.  
C) decreasing the quantity of money.  
D) decreasing money wages.

16) In monetarist business cycle theory, the impulse for a business cycle is changes in

A) money growth.  
B) investment spending.  
C) consumer spending.  
D) net exports.

17) In monetarist business cycle theory, increases in money growth temporarily _______ real GDP because interest rates _______.

A) increase; fall  
B) decrease; fall  
C) decrease; rise  
D) increase; rise

18) An assumption of the monetarist business cycle theory is that the money wage rate is

A) temporarily sticky.  
B) fixed under long-term contracts.  
C) rigid upwards.  
D) rigid downwards.

19) In monetarist business cycle theory, the money wage rate

A) cannot adjust to restore full employment, requiring government intervention to restore full employment.  
B) can only restore full employment if the quantity of money decreases.  
C) adjusts over time to restore full employment.  
D) can only restore full employment if the quantity of money increases.
20) In monetarist business cycle theory, the short-run aggregate supply curve
   A) is horizontal.  
   B) is vertical.  
   C) has a positive slope.  
   D) has a negative slope.

21) In the above figure, suppose the economy starts at point A. The short-run response to a decrease in money growth in monetarist business cycle theory moves the economy to point
   A) B.  
   B) E.  
   C) D.  
   D) C.

22) In the above figure, suppose the economy is at point A. According to the monetarist business cycle theory, a decrease in money growth in the short run moves the economy to point _______ and in the long run moves the economy to point _______.
   A) B; C  
   B) B; A  
   C) C; E  
   D) D; E

23) In the above figure, suppose the economy starts at point A. The long-run response to increase in money growth in the monetarist business cycle theory is for
   A) the price level to rise to 130 and output to remain at $10 trillion.  
   B) the price level to remain at 110 and output to remain at $10 trillion.  
   C) the price level to fall to 90 and output to remain at $10 trillion.  
   D) the price level to rise to 120 and output to increase to $12 trillion.

24) A key element of the new classical model of the business cycle is
   A) a horizontal SAS curve.  
   B) rational expectations.  
   C) sticky prices.  
   D) random fluctuations in technology.

25) In the new classical rational expectations theory of the business cycle, money wages are
   A) fixed for a time under long-term contracts.  
   B) flexible.  
   C) rigid downward and downward.  
   D) able to adjust only upward but not downward.
26) An assumption of the new classical rational expectations theory of the business cycle is that the money wage rate is
   A) renegotiated when economic conditions change.       B) rigidly set at all times.
   C) rigid for one time period only.                      D) rigid for more than one time period.

27) In the new classical rational expectations theory of the business cycle, an unanticipated decrease in aggregate demand ______ the real wage rate and ______ employment.
   A) increases; decreases                               B) decreases; increases
   C) increases; increases                                 D) decreases; decreases

28) In the above figure, suppose the economy is initially at point A. In the new classical model, if there is an unexpected increase in exports, the economy shifts to point
   A) D.    B) B.     C) E.     D) C.

29) In real business cycle theory, the impulse for a business cycle is
   A) changes in the quantity of money.                   B) unexpected changes in aggregate demand.
   C) changes in investment.                              D) technological change.

30) According to the ______ theory, technological change can be so rapid that some existing capital becomes obsolete and ______
   A) new classical; aggregate demand increases           B) real business cycle; productivity falls
   C) new classical; productivity falls                   D) real business cycle; aggregate demand increases

31) In the real business cycle theory, the aggregate supply curve is
   A) vertical.                                          B) downward sloping.
   C) horizontal.                                        D) upward sloping.
32) In the above, the initial position of a curve is denoted by the subscript 0. Which part corresponds to a recession according to a Keynesian model of the economy?
   A) Figure A   B) Figure B   C) Figure C   D) Figure D

33) In the above, the initial position of a curve is denoted by the subscript 0. Which part corresponds to a recession according to a monetarist model of the economy?
   A) Figure A   B) Figure B   C) Figure C   D) Figure D

34) In the above, the initial position of a curve is denoted by the subscript 0. Which part corresponds to a recession according to a new classical model of the economy?
   A) Figure A   B) Figure B   C) Figure C   D) Figure D

35) In the above, the initial position of a curve is denoted by the subscript 0. Which part corresponds to a recession according to a real business cycle model of the economy?
   A) Figure A   B) Figure B   C) Figure C   D) Figure D