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 (4) 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 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.

Reminder: do not forget to take the Chapter 15 on line Aplia quiz on time, i.e. by 5 p.m. Fridays.
MUTLIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Which of the following is TRUE regarding the business cycle?
   I. It is a regular pattern of increasing and decreasing business activity.
   II. The cycle follows a rising trend.
   III. The NBER dates turning points in recessions and expansions.
   A) II and III  
   B) I and II  
   C) I, II and III  
   D) I and III

2) The NBER has identified _______ recessions and expansions since 1920.
   A) 5  
   B) 16  
   C) 2  
   D) 60

3) The recession that occurred in _______ was the most severe in history.
   A) 1990-1991  
   B) 1930s  
   C) 1945  
   D) early 1970s

4) Which of the following is CORRECT regarding business cycles?
   I. Expansions usually last for about 4 years.
   II. Recessions usually last for about 1 year.
   III. The NBER has identified 5 recessions and expansions since 1920.
   A) I and II  
   B) I, II and III  
   C) II and III  
   D) I and III

5) Analysis shows that
   A) long recessions are followed by short expansions.
   B) there is no relationship between the length of expansions and the preceding recessions.
   C) long recessions are followed by long expansions.
   D) short recessions are followed by long expansions.

6) When economists describe business cycles, they usually
   A) disagree upon which impulses are responsible for starting business cycles.
   B) agree that the mechanisms that perpetuate business cycles are similar.
   C) disagree as to the role investment plays in business cycles.
   D) agree that the impulses that start business cycles are similar.

7) Economists agree that _______ play(s) a crucial role in the development of recessions and expansions.
   A) government purchases  
   B) investment  
   C) consumption expenditure  
   D) net exports

8) The beginning of a recession coincides with a _______ while an expansion is triggered by a(n) _______.
   A) decrease in government spending; increase in investment
   B) decrease in investment; decrease in investment
   C) decrease in investment; increase in investment
   D) decrease in government purchases; decrease in investment
9) The country of Belize is experiencing an economic expansion. Place the following events in the proper sequence to describe what will occur.

I. The quantity of capital increases.
II. Firms increase investment.
III. Labor productivity increases.
IV. Diminishing returns to capital occur.

A) IV, I, II, III  
B) II, I, III, IV  
C) I, II, IV, III  
D) III, I, II, IV

10) Business cycle impulses can

A) affect both aggregate supply and aggregate demand.
B) affect only aggregate supply.
C) always be classified as part of the real business cycle theory.
D) affect only aggregate demand.

11) Which of the following are aggregate demand theories of the business cycle?

I. Keynesian Theory
II. Real Business Cycle Theory
III. Rational Expectations Theory

A) I and II  
B) I only  
C) I and III  
D) I, II and III

12) The impulse in the Keynesian model is ________.

A) a speed up in money growth  
B) expected future sales and profits  
C) unanticipated changes in aggregate supply  
D) unanticipated changes in aggregate demand

13) The Keynesian explanation of the business cycle is based on

A) unstable inflationary expectations.
B) volatile expectations about future sales and profits.
C) the inability of government policy-makers to predict the future course of the economy.
D) shifts in monetary policy undertaken by the Federal Reserve.

14) The Keynesian explanation of the business cycle rests on several concepts, including

A) unstable monetary policy by the Fed.  
B) the desire of politicians to be re-elected.  
C) sticky money wage rates.  
D) shocks to the rate of technological change.

15) Which of the following are elements of the Keynesian theory of the business cycle?

I. multiplier effects
II. rational expectations
III. a horizontal short-run aggregate supply curve

A) I and III  
B) I and II  
C) II and III  
D) I, II and III
16) The curves in the above figure show the economy as viewed from a
   A) new classical rational expectations viewpoint.    B) Keynesian viewpoint.
   C) real business cycle viewpoint.                  D) monetarist viewpoint.

17) In the above figure, suppose the economy is initially at point A. If firms expect profits to decrease, in the
    Keynesian theory the economy will move to point
    A) C.     B) E.     C) D.     D) B.

18) Which of the following are elements of the monetarist theory of the business cycle?
    I. The "impulse" is a change in the growth rate of the quantity of money.
    II. The "mechanism" initially affects only the SAS curve.
    III. Prices are temporarily sticky.
    A) I and III     B) I, II and III     C) I and II     D) II and III

19) Monetarists contend that
    A) the Keynesian multiplier is too small.
    B) wages are "sticky" the entire time that the economy is in a recession.
    C) increases in money growth increase investment.
    D) exports decrease as a result of an increase in money growth.

20) Suppose the economy is initially at full employment. In response to an increase in money growth, a monetarist
    claims that
    A) the economy moves away from and then back towards full employment as the economy reacts to changes
        in money growth.
    B) money wage rates eventually will rise.
    C) aggregate demand will increase.
    D) All of the above are TRUE.
21) In the above figure, suppose the economy has moved from point A to point C. According to the monetarist theory of the business cycle, what could have caused this movement?
   A) an increase in uncertainty  
   B) an increase in the money wage rate  
   C) a decrease in money growth  
   D) an increase in money growth

22) In the above figure, suppose the economy has moved from point C to point D. According to the monetarist theory of the business cycle, what could have caused this movement?
   A) a decrease in the money wage rate  
   B) a decrease in money growth  
   C) an increase in money growth  
   D) an increase in uncertainty
23) Using the above figure, a recession in the monetarist model would start with a
   A) leftward shift in the \( AD \) curve.
   B) leftward shift in the \( LAS \) curve.
   C) leftward shift in the \( SAS \) curve.
   D) rightward shift in the \( AD \) curve.

24) In the above figure, according to the monetarist view of the business cycle, in the long run after all adjustments
   have been made, an expansion would result in
   A) a decrease in real GDP below $10 trillion.
   B) a decrease in the price level below 110.
   C) an increase in real GDP above $10 trillion.
   D) an increase in the price level above 110.

25) According to new classical theory of the business cycle, the business cycle is the result of
   A) anticipated changes in policy.
   B) shifts in the aggregate supply curve.
   C) unanticipated changes in aggregate demand.
   D) the fixed duration of price and wage contracts.

26) According to the new classical model, changes in aggregate demand change real GDP
   A) only when the short-run aggregate supply curve is vertical.
   B) all of the time.
   C) only when the changes in aggregate demand are anticipated.
   D) only when the changes in aggregate demand are unanticipated.

27) Real business cycle theory explains the business cycle as the result of
   A) fluctuations in productivity.
   B) excess growth of the quantity of money.
   C) shocks to consumer spending habits.
   D) unstable investment demand.

28) According to the real business cycle theory, which do people consider when deciding when to work?
   A) the inflation rate
   B) the nominal interest rate
   C) the current money wage rate only
   D) the real interest rate
29) Suppose that a severe shock that decreases investment demand hits the U.S. Which of the following can we expect to occur according to the real business cycle model?
   A) the real wage rate will fall.  B) people will work fewer hours.
   C) the real interest rate will fall.  D) All of the above are true.

30) In the real business cycle model, there is no
   A) LAS curve.  B) price level.  C) SAS curve.  D) AD curve.

31) Which of the following models best describes the U.S. expansion of the 1990s?
   A) the real business cycle model  B) the new Keynesian model
   C) the Keynesian model  D) the rational expectations model

32) During the Great Depression, by the year 1933 real GDP had fallen by ________ percent compared to 1929.
   A) 1.8  B) 29  C) 15  D) 60

33) Which of the following statements regarding the Great Depression is correct?
   A) Evidence collected by Milton Friedman and Anna Schwartz show that the stock market crash was the primary cause of the depression.
   B) If a person was able to keep his or her job, the person's real wage rate generally increased.
   C) Increased government spending helped to spur consumer spending.
   D) Real GDP fell by about 10 percent.

34) Which of the following contributed to the collapse of the economy during the Great Depression?
   I. a severe decrease in government spending
   II. a decrease in investment
   III. a large decrease in the monetary base
   A) II and III  B) I and II  C) II only  D) I and III

35) Between 1929 and 1930, real GDP fell from $822 to $752 billion (measured in 1996 dollars) while the price level declined from 12.6 to 12.2. These events can be explained by a small
   A) decrease in aggregate demand and a larger decrease in aggregate supply.
   B) increase in aggregate demand and a small decrease in aggregate supply.
   C) increase in aggregate supply and a small decrease in aggregate demand.
   D) decrease in aggregate supply and a larger decrease in aggregate demand.