Instructions:

This is the on-line Multiple Choice Quiz for Chapter 6. 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, 0 in the O column, and 6 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 6 on line Aplia quiz on time, i.e. by 5 p.m. Fridays.
MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) The quantity of real GDP supplied at different price levels is reflected by the
   A) aggregate demand curve.   B) total expenditures.
   C) real wealth effect.       D) aggregate supply curve.

2) When talking about aggregate supply, it is necessary to
   A) distinguish between long-run full employment and short-run full-employment.
   B) focus on the long run.
   C) distinguish between long-run aggregate supply and short-run aggregate supply.
   D) focus on the short run.

3) The long-run aggregate supply curve is
   A) horizontal at the full employment price level.
   B) vertical at the full employment level of real GDP.
   C) the same as the short-run aggregate supply curve.
   D) upward sloping because of the effects of price level changes on output.

4) The short-run aggregate supply curve
   A) shows a negative relationship between the price level and real national income holding constant potential
      GDP and all resource prices.
   B) relates aggregate production and the price level holding constant potential GDP and all resource prices.
   C) shows what each producer is willing and able to produce at each income level holding constant potential
      GDP and all resource prices.
   D) becomes vertical if there is excess production capacity within the economy.

5) In the short run, firms expand their production when the price level rises because
   A) firms can increase their profits by increasing their maintenance.
   B) the money wage rate remains constant so the higher prices for their product makes it profitable for firms to
      expand production.
   C) the higher prices allow the firm to hire more workers by offering higher wages, thereby increasing
      productivity and profits.
   D) each firm must keep its production level up to the level of its rivals, and some firms will expand
      production as the price level increases.

6) A change in __________ causes a movement along the short-run aggregate supply curve but no shift in the
   short-run aggregate supply curve.
   A) technology                          B) wage rates (the cost of labor)
   C) the quantity of capital             D) the price level
7) The curve labeled $A$ in the above figure is a
   A) short-run aggregate demand curve.       B) long-run aggregate demand curve.
   C) long-run aggregate supply curve.         D) short-run aggregate supply curve.

8) The curve labeled $A$ in the above figure will shift rightward when
   A) technology increases.                    B) population falls.
   C) the price level rises.                   D) the price level falls.

9) With an increase in the capital stock, the short-run aggregate supply curve
   A) shifts leftward.                         B) becomes steeper.       C) shifts rightward.       D) remains as it is.
10) In the above figure, B is the current long-run aggregate supply curve and E is the current short-run aggregate supply curve. If there is an increase in the full-employment quantity of labor, then the long-run aggregate supply curve and the short-run aggregate supply curve
   A) remain B and E. 
   B) shift to A and F, respectively. 
   C) shift to A and D, respectively. 
   D) shift to C and F, respectively.

11) Which of the following directly shifts the short-run aggregate supply curve?
   A) a change in the price level 
   B) a change in aggregate demand 
   C) a change in resource prices 
   D) all of the above

12) A change in which of the following shifts the short-run aggregate supply curve?
   A) an advance in technology 
   B) a change in the money wage rate 
   C) a change in the quantity of capital 
   D) All of the above shift the short-run aggregate supply curve.

13) The aggregate demand curve shows 
   A) that real income is directly (positively) related to the price level. 
   B) the quantity of real GDP demanded at different price levels. 
   C) total expenditures at different levels of national income. 
   D) All of the above answers are correct.

14) The aggregate demand curve 
   A) has a negative slope. 
   B) has a positive slope. 
   C) is horizontal. 
   D) is vertical.
15) All of the following explain the downward slope of the aggregate demand curve EXCEPT
   A) changes in real wealth.
   B) the effect of changing interest rates on the quantity demanded of goods today versus goods in the future.
   C) the presence of unused production capacity and unemployment.
   D) the availability of foreign substitute goods.

16) An increase in the price level causes
   A) consumption expenditures to decrease.  
   B) a movement along the aggregate demand curve.
   C) a wealth effect.  
   D) All of the above answers are correct.

17) An individual holds $10,000 in a checking account and the price level rises significantly. Hence
   A) there is no change in the individual's real wealth.
   B) the individual's real wealth and consumption expenditure decrease.
   C) the individual's real wealth decreases but real national wealth increases.
   D) the individual's wealth increases.

18) A rise in the price level will have an effect on aggregate demand because
   A) the real value of people's wealth decreases and so they decrease their consumption.
   B) the more money people have, the more it is worth and hence the more goods and services they demand.
   C) people like to spend more when prices are higher.
   D) the real value of people's wealth varies directly with the price level and so does their spending.

19) Substitution effects help explain the slope of the aggregate demand curve. One substitution effect refers to the
   A) direct relationship between the interest rate and the real value of wealth.
   B) effect on investment expenditures that result from a change in interest rates produced by a change in the price level.
   C) inverse relationship between the interest rate and the price level.
   D) change in wealth that results from a change in the interest rate.

20) According to the intertemporal substitution effect, a fall in the price level will
   A) increase the real value of wealth, which causes interest rates to increase. As a result, the quantity of real GDP demanded decreases.
   B) lead to an increase in net exports, which causes the quantity of real GDP demanded to increase.
   C) decrease the real value of wealth, which causes the quantity of real GDP demanded to increase.
   D) cause the interest rate to fall. As a result, investment increases and the quantity of real GDP demanded increases.

21) When the relative prices of U.S.-made goods go up, the result is
   A) no change in imports or exports.  
   B) a decrease in imports.
   C) an increase in exports.  
   D) a decrease in exports.
22) When the price level in France increases while the exchange rate and the price level in the United States remain the same, the result is
   A) French citizens are more likely to buy U.S.-made goods.
   B) U.S. citizens are less likely to buy French-made goods.
   C) U.S.-made goods become relatively cheaper compared to French-made goods.
   D) All of the above answers are correct.

23) Which of the following shifts the aggregate demand curve rightward?
   A) a decrease in consumption
   B) an increase in investment expenditures
   C) a decrease in government purchases of goods and services
   D) a decrease in net exports

24) Which of the following increases aggregate demand?
   A) a decrease in government spending
   B) a decrease in tax rates
   C) a decrease in the money supply
   D) a decrease in foreign income

25) The U.S. aggregate demand curve shifts leftward if
   A) there is a tax cut.
   B) the Federal Reserve decreases the money supply.
   C) the economic conditions in Europe improve so that European incomes increase.
   D) the foreign exchange rate falls.

26) In the above figure, the shift from point C to point B might be the result of
   A) a decrease in government purchases.
   B) an increase in the quantity of money.
   C) a decrease in the price level.
   D) an increase in the price level.
27) In the above figure, the curve labeled A shifts rightward if
   A) the substitution effect occurs.                      B) taxes decrease.
   C) expected future profits decrease.                 D) the money supply decreases.

28) The equilibrium level of GDP occurs at the level of GDP at which the
   A) aggregate quantity demanded equals the aggregate quantity supplied.
   B) aggregate demand curve becomes vertical.
   C) unemployment rate is zero.
   D) All of the above answers are correct.

29) By using only the aggregate demand curve, we can determine
   A) only the price level.
   B) neither the price level nor the quantity of real GDP.
   C) both the price level and quantity of real GDP.
   D) only the quantity of real GDP.

30) A short-run macroeconomic equilibrium occurs
   A) at the intersection of the short-run aggregate supply curve and the aggregate demand curve.
   B) at the intersection of the short-run aggregate supply curve, the long-run aggregate supply curve, and the aggregate demand curve.
   C) at the intersection of the short-run aggregate supply curve and the long-run aggregate supply curve.
   D) when the rate at which prices increase equals the rate at which resource prices increase.
31) In the above figure, the economy is at point A when changes occur. If the new equilibrium has a price level of 120 and real GDP of $9.0 trillion, then it must be the case that
   A) aggregate supply has decreased.   B) aggregate supply has increased.
   C) aggregate demand has decreased.   D) aggregate demand has increased.

32) If the money wage rate has fully adjusted to any changes, the economy is
   A) at a short-run macroeconomic equilibrium but not at a long-run macroeconomic equilibrium.
   B) experiencing an inflationary gap.
   C) experiencing a recessionary gap.
   D) at its long-run macroeconomic equilibrium.
33) In the above figure, the inflationary gap when $AD_2$ is the aggregate demand curve equals
   A) the difference between 110 and 100.
   B) $AD_1$.
   C) $LAS$ minus $SAS$ at a price level of 100.
   D) the difference between $10.5$ trillion and $10.0$ trillion.

34) The reason that it is possible for the economy in the above figure to be at equilibrium $E_2$ rather than at $E_1$ is that
   A) in the long run there is always less than full employment.
   B) in the short run the economy can produce more than it can in a long-run situation.
   C) the economy must be in a recession.
   D) $AD$ always shifts rightward and never shifts leftward.
35) In the above figure, suppose the economy had been at point A and now is at B. What could have lead to the movement to B?
   A) Money wages rose.
   B) Government purchases increased.
   C) Winter storms cause factories in the north to be shut down for several weeks.
   D) Unusually good weather causes the wheat crop to be larger than normal.