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 3) 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:

\[
\begin{align*}
A &= 35, 34, 33, 32, 31, 30 \\
B &= 29, 28, 27, 26, 25, 24 \\
C &= 23, 22, 21, 20, 19, 18 \\
D &= 17, 16, 15, 14, 13, 12 \\
F &= \text{less than 12}
\end{align*}
\]

Note: All MC quizzes will be discussed in detail in class for each section (1 or 3) 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) a periodic and predictable fluctuation in real GDP about its trend.
   B) an irregular fluctuation in real GDP about its trend.
   C) the downward trend in real GDP.
   D) the trend increase in real GDP.

2) Since 1920, the average peak to trough decline in real GDP during a recession has been about
   A) 1 percent.  B) 20 percent.  C) 10 percent.  D) 6 percent.

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

4) A business cycle impulse is the
   A) mechanism that causes a cycle to continue.
   B) policy response to the actions of the public that start a business cycle.
   C) economic event that ends a business cycle fluctuation.
   D) economic event that begins a business cycle fluctuation.

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

6) During an expansion investment is
   A) low and the capital stock grows slowly.  B) high and the capital stock grows slowly.
   C) high and the capital stock grows rapidly.  D) low and the capital stock grows rapidly.

7) The _______ theory is considered a(n) _______ theory of the business cycle?
   A) new Keynesian; supply side  B) rational expectations; supply side
   C) monetarist; real business cycle  D) Keynesian; aggregate demand

8) According to _______ the business cycle is the result of shifts in the economy’s AD curve.
   A) only the Keynesian and monetarist theories
   B) the Keynesian, monetarist, and real business cycle theories
   C) the Keynesian theory only
   D) the Keynesian, monetarist, and rational expectations theories
9) In the Keynesian business cycle theory, business cycle impulses are
   A) consumers' expectations about future income. B) expectations about government policy.
   C) the public's expectations about Fed policies. D) firms' expectations about sales and profits.

10) 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; no change in the price level
   C) horizontal; the price level rising   D) upward sloping; the price level falling

11) 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) II and III                        B) I, II, and III
   C) I and II                          D) I

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) never changes.
   D) rises when unemployment is less than the natural rate but does not change if unemployment exceeds the
      natural rate.

13) 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) D.          C) E.                        D) B.
14) In monetarist business cycle theory, the impulse for a business cycle is changes in
   A) consumer spending.                           B) net exports.
   C) money growth.                                D) investment spending.

15) In monetarist business cycle theory, decreases in money growth temporarily _______ real GDP because interest rates _______.
   A) increase; fall                             B) decrease; rise
   C) increase; rise                             D) decrease; fall

16) An assumption of the monetarist business cycle theory is that the money wage rate is
   A) rigid downwards.                           B) rigid upwards.
   C) fixed under long-term contracts.           D) temporarily sticky.

17) In monetarist business cycle theory, the money wage rate
   A) adjusts over time to restore full employment.
   B) can only restore full employment if the quantity of money increases.
   C) can only restore full employment if the quantity of money decreases.
   D) cannot adjust to restore full employment, requiring government intervention to restore full employment.

18) In monetarist business cycle theory, the short-run aggregate supply curve
   A) is horizontal.                             B) is vertical.
   C) has a negative slope.                      D) has a positive slope.

19) In the above figure, suppose the economy starts at point A. The short-run response to an increase in money growth in monetarist business cycle theory moves the economy to point
   A) B.                                           B) C.
   C) E.                                           D) D.
20) In the above figure, suppose the economy is at point A. According to the monetarist business cycle theory, an increase in money growth in the short run moves the economy to point _______ and in the long run moves the economy to point _______.

A) D; E  
B) C; E  
C) B; C  
D) B; A

21) The business cycle impulse in the new classical theory of the business cycle is

A) fluctuations in money growth with temporarily rigid wages. 
B) anticipated changes in aggregate demand. 
C) unanticipated changes in aggregate demand. 
D) fluctuations in investment coupled with rigid wages.

22) 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.

23) In the new classical rational expectations theory of the business cycle, an unanticipated increase in aggregate demand _______ the real wage rate and _______ employment.

A) decreases; increases  
B) increases; increases  
C) decreases; decreases  
D) increases; decreases

24) According to the rational expectations theory of the business cycle, an unexpected decrease in the quantity of money shifts the AD curve _______ and _______ the price level.

A) leftward; leaves unchanged  
B) rightward; raises  
C) leftward; lowers  
D) rightward; leaves unchanged

25) In the above figure, suppose the economy is initially at point A. In the new classical model, if there is an unexpected decrease in government purchases, the economy shifts to point

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

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

28) In the real business cycle theory, the aggregate supply curve is
   A) vertical.  
   B) upward sloping.  
   C) downward sloping.  
   D) horizontal.

29) "Intertemporal substitution" in labor supply describes shifts in labor supply in response to changes in
   A) the real interest rate.  
   B) investment spending.
   C) personal tax rates.  
   D) consumer demand for goods.

30) According to real business cycle theory, a fall in the real interest rate _______ current labor supply and _______ current employment.
   A) decreases; decreases  
   B) increases; increases
   C) decreases; increases  
   D) increases; decreases

31) Critics of the real business cycle model argue that
   A) investment spending is strongly related to the real interest rate.
   B) labor supply is only weakly related to the real interest rate.
   C) labor supply is very strongly related to the real interest rate.
   D) investment spending is only weakly related to the real interest rate.
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