Don’t forget to download a copy of the Homework Cover Sheet. Mark the location where you handed in your work.

Homework #8; Chapter 6. This homework has three parts (A, B, C). Each part will be separately graded.

Part A, HW #8, Ch #6.

Go to technical problems, page 140. Do the following problems. Show your work.

1.
2.
3a.

Part B, HW#8, Ch #6.

Go to conceptual problems, page 139. Do the following problem. Show your work.

1.

Part C, HW#8, Ch#6.

MC Quiz, 25 questions, use red score sheet handed out in class or available outside Heady 281 or Heady 67.

We will use the following grading scale.

A = 20+
B = 19, 18, 17
C = 16, 15, 14
D = 13, 12, 11
F = < 11

1. The theory of aggregate supply is one of the most controversial in macroeconomics because
   A) modern models, while similar in their starting points, reach widely different results in explaining the AS-curve
   B) economists cannot agree whether the Keynesian or the classical AS-curve is a better reflection of reality
   C) economists cannot agree whether wages are completely flexible or rigid in the long run
   D) economists cannot agree whether wages are completely flexible or rigid in the short run
   E) economists do not completely agree on the reasons for the slow adjustment of wages and prices after demand-side disturbances
2. The Phillips curve shows a relationship between
   A) the level of output and prices
   B) the level of wages and unemployment
   C) the level of prices and unemployment
   D) the rate of change in prices and the rate of unemployment
   E) price and wage rate changes

3. For many government decision makers, the original Phillips curve
   A) implied a trade-off between lowering unemployment at the cost of higher
      inflation or lowering inflation at the cost of higher unemployment
   B) gave hope that economic stabilization policy will always work if applied
      correctly
   C) relieved concern about possible severe recessions, since unemployment could always
      be expected to adjust at its natural rate
   D) implied that the natural rate of unemployment can be lowered by expansionary
      monetary policy
   E) all of the above

4. According to the Phillips curve relationship, if unemployment is at the natural rate, then
   A) the rate of inflation is zero
   B) nominal wages will always be equal to real wages
   C) the labor supply will be totally price elastic
   D) prices will always immediately adjust to changes in money supply
   E) none of the above

5. The inflation-expectations-augmented Phillips curve implies that
   A) unemployment is at its natural rate when expected inflation is equal to actual
      inflation
   B) stagflation occurs when expected inflation is below actual inflation
   C) stagflation occurs when the short-run Phillips curve shifts left
   D) the expected inflation rate is equal to the real output growth rate plus the monetary
      growth rate
   E) both A) and B)

6. The natural rate of unemployment is
   A) zero since everyone who is unemployed is so voluntarily
   B) the result of labor market friction--people entering the labor force, changing careers,
      etc.
   C) rarely more than 3 percent
   D) the amount of unemployment caused by an average recession
   E) mostly the result of misguided government policy

7. The rational expectations hypothesis predicts that
   A) an announced change in monetary policy will not affect the unemployment rate
   B) the short-run Phillips curve will shift as soon as new information about future
      inflation becomes available
   C) the level of output will not be affected by any predictable change in monetary policy
   D) all of the above
   E) only A) and C)
8. The fact that nominal wages are fixed by a contract at the beginning of a period while prices of goods may change within that period, implies that
   A) unanticipated changes in the money supply do not affect the level of output
   B) the AS-curve is vertical
   C) firms want to supply more output when prices increase since the real wage rate is lower
   D) anticipated monetary policy changes will not affect the level of inflation
   E) money supply changes affect prices but not unemployment in the short run

9. If nominal wage rates were completely flexible, then
   A) fiscal policy would affect real money balances but not output
   B) the AS-curve would be horizontal
   C) periods of unemployment would be much more frequent
   D) frictional unemployment would not exist
   E) monetary policy would be ineffective in changing the price level

10. Okun's law states that one extra percentage point in unemployment cause
    A) real GDP to fall by about 2 percent
    B) real GDP to fall by about 0.5 percent
    C) the rate of inflation to decline by about 2 percent
    D) the rate of inflation to decline by about 0.5 percent
    E) both GDP and the rate of inflation to decline by about 2 percent

11. Which of the following is NOT used in deriving the AS-curve in Chapter 6?
    A) the link between output and employment
    B) the price-cost relation
    C) the Phillips curve
    D) the quantity theory of money
    E) all of the above are used

12. The upward-sloping AS-curve will shift eventually to the left if
    A) labor productivity increases
    B) actual output is lower than the full-employment level
    C) actual output is higher than the full-employment level
    D) the markup over labor cost falls
    E) the level of potential output increases

13. Restrictive monetary policy will eventually affect the upward-sloping AS-curve since
    A) higher interest rates will increase the cost of production
    B) higher interest rates will reduce the capital stock, thus reducing potential GDP
    C) the resulting unemployment will cause downward pressure on nominal wages, so the cost of production will decrease
    D) real wages will decline in proportion to the change in money supply and this will cause a change in unemployment
    E) firms will start laying off workers in anticipation of a decline in aggregate demand
14. Assume the Fed implements restrictive monetary policy. Which of the following is the most likely result in an AD-AS framework with an upward sloping AS-curve?
   A) the interest rate will increase but output, prices, and real money balances will fall
   B) the interest rate, output, and prices will all decline
   C) prices and output will fall, but real money balances will increase
   D) real money balances will remain unchanged, since money supply and prices will decrease proportionally
   E) real money balances and prices will fall proportionally

15. Assume output is at its full-employment level and the Fed restricts money supply. What is the most likely outcome?
   A) an immediate decrease in prices, with no impact on output
   B) no change in nominal wages in the short run, but a decline in output and prices in the medium run
   C) no change in real wages, but a decline in output and prices in the medium run
   D) a decrease in nominal wages and prices in proportion to money supply, but no change in output and real interest rates in the long run
   E) both B) and D)

16. Assume the economy is at full employment. Which is the most likely effect of a decrease in government spending?
   A) output, prices, and interest rates will all increase in the medium run
   B) output, prices, and interest rates will all decrease in the long run
   C) prices and interest rates will decrease in the medium and long run while output will be negatively affected in the medium run but not in the long run
   D) output and prices will remain the same in the long run, but interest rates will increase both in the medium and long run
   E) output, prices and interest rates will all decline in the medium run but only output will be negatively affected in the long run

17. The most likely long-run result of a tax cut would be
   A) lower unemployment but higher prices and interest rates
   B) higher interest rates but no change in unemployment and prices
   C) higher levels of consumption, investment, and employment
   D) more consumption and less investment, with output remaining unchanged
   E) higher prices and interest rates, resulting in less consumption and investment

18. In the long run, an increase in nominal money supply will
   A) cause both the nominal wage rate and the price level to rise proportionately, leaving the real wage rate and output unchanged
   B) cause prices to rise more than nominal wages, lowering real wages and creating more job opportunities
   C) affect prices but not nominal wages or unemployment
   D) increase nominal wages more than the price level so workers will spend more and aggregate demand will increase
   E) increase real wages, output, and prices proportionally
19. In the long run, monetary expansion should have the following result:
   A) nominal wages change in proportion to nominal money supply
   B) real interest rates remain constant
   C) real wages remain constant
   D) prices change in proportion to nominal money supply
   E) all of the above

20. In an AD-AS model with an upward sloping AS-curve, what would happen if oil prices increased and the Fed responded by restricting money supply?
   A) real output would increase and the price level would remain the same
   B) real output would remain the same but the price level would decrease
   C) real output would decrease and the price level would increase sharply
   D) real output would decrease and the price level would decrease sharply
   E) real output would decrease but we can't tell what would happen to the price level

21. In the static AD-AS model, what is the most likely long-run outcome of an oil price increase, if no policy change is implemented?
   A) real wages will decline while the levels of output and prices will remain unchanged
   B) the level of prices will increase while the level of output will remain unchanged
   C) the natural unemployment rate and the price level will both increase
   D) nominal wages and prices will increase, but real wages will remain unchanged
   E) real money balances and real wages will decline while nominal wages will remain unchanged

22. Suppose an increase in oil prices is accompanied by a decline in the level of potential output. Which of the following is the most likely long-run effect?
   A) real GDP will decrease but prices will increase
   B) real GDP and prices will both decline
   C) real GDP will remain the same but prices will increase
   D) real GDP will remain the same but nominal GDP will decrease
   E) the unemployment rate and prices will both decrease

23. If the government stimulates aggregate demand in response to an adverse supply shock,
   A) the inflation rate will increase but frictional unemployment will decrease
   B) the unemployment rate will increase but the inflation rate will decline
   C) an increase in unemployment can be avoided but only at the cost of increased inflation
   D) high inflation can be avoided but the rate of unemployment will increase
   E) the inflation and unemployment rates will be reduced simultaneously

24. When we look at the real (inflation adjusted) price of crude oil over the last three decades, we realize that
   A) oil prices doubled between 1971 and 1974
   B) oil prices did not change much between 1974 and 1978
   C) oil prices more than doubled between 1978 and 1981
   D) oil prices were lower in 1998 than in 1978
   E) all of the above
25. In the 1990s, the CPI
   A) steadily declined, primarily due to reduced oil prices
   B) was fairly constant due to cheap oil and computer prices
   C) increased slightly despite a drastic decrease in computer prices
   D) increased despite stable prices for oil and computers
   E) decreased drastically due to much cheaper prices for oil and computers