National Income and Price Determination Unit Test – RETAKE!
AP Macroeconomics
Chastain

Multiple Choice: Write the letter of the BEST answer choice. There may be more than one answer for SOME questions.

1. Because changes in the aggregate price level have no effect on aggregate output in the long run, the long-run aggregate supply curve is
   a. Vertical
   b. Horizontal
   c. Fixed
   d. Negatively sloped
   e. Positively sloped

2. Which of the following causes a negative supply shock?
   I. A technological advance
   II. Increasing productivity
   III. An increase in oil prices
   a. I only
   b. II only
   c. III only
   d. I and III only
   e. I, II, and III

3. An income tax rebate is an example of
   a. An expansionary fiscal policy
   b. A contractionary fiscal policy
   c. An expansionary monetary policy
   d. A contractionary monetary policy
   e. None of the above

4. The level of planned investment spending is negatively related to the
   a. rate of return on investment.
   b. level of consumer spending.
   c. level of actual investment spending
   d. interest rate.
   e. all of the above.

5. Which of the following contributes to the lag in implementing fiscal policy?

    I. It takes time for Congress and the President to pass spending and tax changes.
    II. Current economic data take time to collect and analyze.
    III. It takes time to realize an output gap exists.

    a. I only
    b. II only
    c. III only
    d. I and III only
    e. I, II, and III

6. Which of the following will shift the aggregate demand curve to the right?
    a. A decrease in wealth
    b. Pessimistic consumer expectations
    c. A decrease in the existing stock of capital
    d. Contractionary fiscal policy
    e. A decrease in the quantity of money

7. Changes in which of the following leads to a shift of the aggregate consumption function?

    I. Expected future disposable income
    II. Aggregate wealth
    III. Current disposable income

    a. I only
    b. II only
    c. III only
    d. I and II only
    e. I, II, and III

8. Which of the following is NOT an automatic stabilizer?
    a. Income taxes
    b. Unemployment insurance
    c. Medicaid
    d. Food stamps
    e. Monetary policy

9. Which of the following will shift the short-run aggregate supply curve? A change in
    a. profit per unit at any given price level.
    b. commodity prices.
    c. nominal wages.
    d. productivity.
    e. all of the above.

10. Which of the following causes a positive demand shock?
    a. An increase in wealth
    b. Pessimistic consumer expectations
    c. A decrease in government spending
    d. An increase in taxes
    e. An increase in the existing stock of capital

11. Which of the following is a fiscal policy that is appropriate to combat inflation?
    a. Decreasing taxes
    b. Decreasing government spending
    c. Increasing government transfers
    d. Increasing interest rates
    e. Expansionary fiscal policy

12. Decreases in the stock market decrease aggregate demand by decreasing which of the following?
    a. Consumer wealth
    b. The price level
    c. The stock of existing physical capital
    d. Interest rates
    e. Tax revenues

13. A decrease in which of the following will cause the short-run aggregate supply curve to shift to the left?
    a. Commodity prices
    b. The cost of health care insurance premiums paid by employers
    c. Nominal wages
    d. Productivity
    e. The use of cost-of-living allowances in labor contracts

14. Which of the following is an example of expansionary fiscal policy?
   a. Increasing taxes
   b. Increasing government spending
   c. Decreasing government transfers
   d. Decreasing interest rates
   e. Increasing the money supply

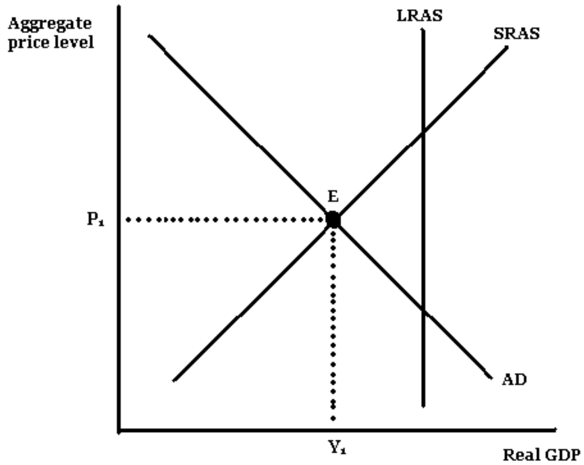
15. Which of the following explains the slope of the aggregate demand curve?
   I. The wealth effect of a change in the aggregate price level
   II. The interest rate effect of a change in the aggregate price level
   III. The product-substitution effect of a change in the aggregate price level
   a. I only
   b. II only
   c. III only
   d. I and II only
   e. I, II, and III

16. Which of the following government policies will shift the aggregate demand curve to the left?
   a. A decrease in the quantity of money
   b. An increase in government purchases of goods and services
   c. A decrease in taxes
   d. A decrease in interest rates
   e. An increase in government transfers

17. The horizontal intercept of the long-run aggregate supply curve is
   a. At the origin
   b. Negative
   c. At potential output
   d. Equal to the vertical intercept
   e. Always the same as the horizontal intercept of the short-run aggregate supply curve

18. The marginal propensity to consume
   I. Has a negative relationship to the multiplier
   II. Is equal to 1
   III. Represents the proportion of consumers' disposable income that is spent
   a. I only
   b. II only
   c. III only
   d. I and III only
   e. I, II, and III

Refer to the graph for questions 19 and 20:



19. Which of the following statements is true if this economy is operating P_1 and Y_1?

I. The level of aggregate output equals potential output.
II. It is in short-run macroeconomic equilibrium.
III. It is in long-run macroeconomic equilibrium.

a. I only
b. II only
c. III only
d. II and III
e. I and II

20. The economy depicted in the graph is experiencing a(n)

a. Contractionary gap
b. Recessionary gap
c. Inflationary gap
d. Demand gap
e. Supply gap

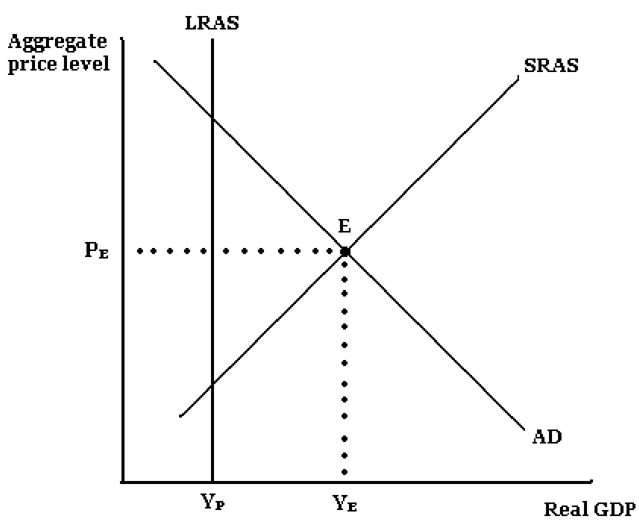
Short Answer: Answer the question by either explaining the question or by drawing an appropriate graph. Make sure you LABEL EVERYTHING!

21. Draw a correctly labeled graph illustrating a long-run macroeconomic equilibrium graph.

a. On your graph, illustrate an increase in short-run aggregate supply.
b. What could have caused the change you illustrated in part a? List three possible causes.

22. Assume that the country of Chastainland is currently in recession.
    a. Assume that Chastainland produces only food and clothing. Draw a correctly labeled production possibilities curve for Chastainland. Show a point that could represent the current output combination and label it A.
    b. Assume that the Government of Chastainland pursues a fiscal policy.
        i. Identify the fiscal policy that the Government would use.
        ii. Using a correctly labeled graph of aggregate supply and aggregate demand, show each of the following:
            1. Long-run aggregate supply
            2. The output level, labeled Y_E, and the price level, labeled PL_E.
    c. Assume consumer confidence falls. Show on your graph in part (b)(ii) the short-run impact of the change in consumer confidence and label the new equilibrium price level and output Y_1 and PL_1 respectively.

23. Refer to the graph below to answer the following questions:



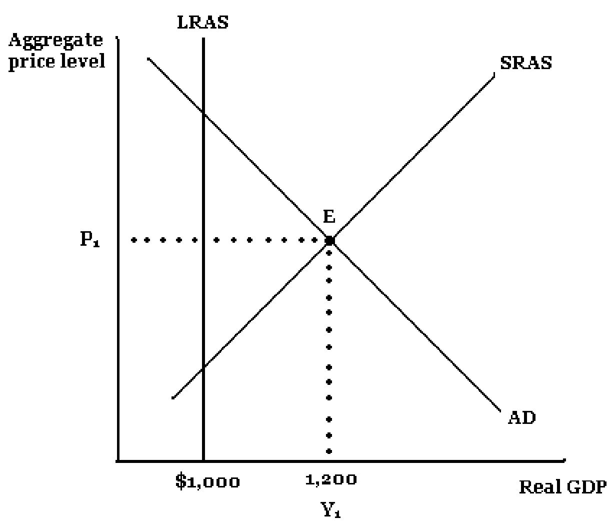
    a. What type of gap exists in this economy?
    b. What type of fiscal policy is appropriate in this situation?

24. For each event, explain whether the initial effect is a change in planned investment spending or a change in unplanned inventory investment, and indicate the direction of the change.
    a. An unexpected increase in consumer spending
    b. A sharp rise in the cost of business borrowing
    c. A sharp increase in the economy's growth rate of real GDP
    d. An unanticipated fall in sales

25. Draw a correctly labeled graph showing aggregate demand.

a. On your graph, illustrate an increase in aggregate demand.
b. List the four factors that shift aggregate demand.
c. Describe a change in each determinant of aggregate demand that would lead to the shift you illustrated in part a.

26. Refer to the graph below to answer the following questions:



a. Is the economy in short-run macroeconomic equilibrium? Explain.
b. Is the economy in long-run macroeconomic equilibrium? Explain.
c. What type of gap exists in this economy?
d. What will happen to the size of the output gap in the long run?