22.1 Aggregate Demand

1) The aggregate demand curve is the total quantity of an economy’s
A) intermediate goods demanded at different inflation rates.
B) intermediate goods demanded at a particular inflation rate.
C) final goods and services demanded at a particular inflation rate.
D) final goods and services demanded at different inflation rates.
Answer: D
Ques Status: Revised
AACSB: Reflective thinking skills

2) The total quantity of an economy's final goods and services demanded at different inflation rates is
A) the aggregate supply curve.
B) the aggregate demand curve.
C) the Phillips curve.
D) the aggregate expenditure function.
Answer: B
Ques Status: Revised
AACSB: Reflective thinking skills

3) One way to derive aggregate demand is by looking at its four component parts, which are
A) consumer expenditures, planned investment spending, government spending, and net exports.
B) consumer expenditures, actual investment spending, government spending, and net exports.
C) consumer expenditures, planned investment spending, government spending, and gross exports.
D) consumer expenditures, planned investment spending, government spending, and taxes.
Answer: A
Ques Status: Previous Edition
AACSB: Reflective thinking skills

4) By analyzing aggregate demand through its component parts, we can conclude that, everything else held constant, a decline in the inflation rate causes
A) an increase in real interest rates, a decline in investment spending, and a decline in aggregate output demand.
B) a decline in real interest rates, a decrease in investment spending, and an increase in aggregate output demand.
C) a decline in real interest rates, an increase in investment spending, and an increase in aggregate output demand.
D) an increase in real interest rates, a decline in investment spending, and a decline in aggregate output demand.
Answer: C
Ques Status: Revised
AACSB: Analytic skills
5) By looking at aggregate demand via its component parts, we can conclude that the aggregate 
demand curve is downward sloping because 
A) a lower inflation rate causes the real interest rate to fall, and stimulates planned investment 
spending. 
B) a lower inflation rate causes the real interest rate to rise, and stimulates planned investment 
spending. 
C) a higher inflation rate causes the real interest rate to fall, and stimulates planned investment 
spending. 
D) a higher inflation rate causes the real interest rate to rise, and stimulates planned investment 
spending. 
Answer: A  
Ques Status: Revised  
AACSBD: Analytic skills  

6) Everything else held constant, an autonomous monetary policy easing ________ aggregate 
________. 
A) increases; demand  
B) decreases; demand  
C) decreases; supply  
D) increases; supply  
Answer: A  
Ques Status: New  
AACSBD: Analytic skills  

7) Everything else held constant, an autonomous monetary policy tightening ________ aggregate 
________. 
A) increases; demand  
B) decreases; demand  
C) decreases; supply  
D) increases; supply  
Answer: B  
Ques Status: New  
AACSBD: Analytic skills  

8) Everything else held constant, when financial frictions increase, the real cost of borrowing 
________ so that planned investment spending ________ at any given inflation rate. 
A) increases; falls  
B) decreases; falls  
C) decreases; rises  
D) increases; rises  
Answer: A  
Ques Status: New  
AACSBD: Analytic skills
9) Everything else held constant, an increase in financial frictions ______ aggregate ______. 
A) increases; demand 
B) decreases; demand 
C) decreases; supply 
D) increases; supply 
Answer: B
Ques Status: New
AACSB: Analytic skills

10) Everything else held constant, an increase in government spending ______ aggregate ______. 
A) increases; demand 
B) decreases; demand 
C) decreases; supply 
D) increases; supply 
Answer: A
Ques Status: Previous Edition
AACSB: Analytic skills

11) Everything else held constant, a decrease in government spending ______ aggregate ______. 
A) increases; demand 
B) decreases; demand 
C) decreases; supply 
D) increases; supply 
Answer: B
Ques Status: Previous Edition
AACSB: Analytic skills

12) Everything else held constant, a decrease in net taxes ______ aggregate ______. 
A) increases; demand 
B) decreases; demand 
C) decreases; supply 
D) increases; supply 
Answer: A
Ques Status: Previous Edition
AACSB: Analytic skills

13) Everything else held constant, an increase in net taxes ______ aggregate ______. 
A) increases; demand 
B) decreases; demand 
C) decreases; supply 
D) increases; supply 
Answer: B
Ques Status: Previous Edition
AACSB: Analytic skills
14) Everything else held constant, a balanced budget increase in government spending (that is, an increase in government spending that is matched by an identical increase in net taxes) will
A) increase aggregate demand, but not by as much as if just government spending increases.
B) increase aggregate demand by more than if just government spending increases.
C) not affect aggregate demand.
D) decrease aggregate demand.
Answer: A

Ques Status: Previous Edition
AACSB: Analytic skills

15) Everything else held constant, an increase in net exports ______ aggregate ______.
A) increases; demand
B) decreases; demand
C) decreases; supply
D) increases; supply
Answer: A

Ques Status: Previous Edition
AACSB: Analytic skills

16) Everything else held constant, a decrease in net exports ______ aggregate ______.
A) increases; demand
B) decreases; demand
C) decreases; supply
D) increases; supply
Answer: B

Ques Status: Previous Edition
AACSB: Analytic skills

17) Everything else held constant, an increase in planned investment expenditure ______ aggregate ______.
A) increases; demand
B) decreases; demand
C) decreases; supply
D) increases; supply
Answer: A

Ques Status: Previous Edition
AACSB: Analytic skills

18) Everything else held constant, a decrease in planned investment expenditure ______ aggregate ______.
A) increases; demand
B) decreases; demand
C) decreases; supply
D) increases; supply
Answer: B

Ques Status: Previous Edition
AACSB: Analytic skills
19) Everything else held constant, aggregate demand increases when
A) taxes are cut.
B) government spending is reduced.
C) animal spirits decrease.
D) the money supply is reduced.
Answer: A
Ques Status: Previous Edition
AACSB: Analytic skills

20) Everything else held constant, aggregate demand increases when
A) net exports decrease.
B) taxes increase.
C) planned investment spending increases.
D) the money supply decreases.
Answer: C
Ques Status: Previous Edition
AACSB: Analytic skills

21) Everything else held constant, which of the following does not cause aggregate demand to increase?
A) An increase in net exports
B) An increase in government spending
C) An increase in taxes
D) An increase in consumer optimism
Answer: C
Ques Status: Previous Edition
AACSB: Analytic skills

22) Explain through the component parts of aggregate demand why the aggregate demand curve slopes down with respect to the inflation rate. Be sure to discuss two channels through which changes in inflation rates affect demand.
Answer: A fall in the inflation rate lowers real interest rates. Lower rates increase investment, thereby increasing aggregate demand. Lower interest rates also cause depreciation of the domestic currency, increasing net exports and aggregate demand.
Ques Status: Revised
AACSB: Reflective thinking skills
22.2 Aggregate Supply

1) The aggregate supply curve is the total quantity of
   A) raw materials offered for sale at different inflation rates.
   B) final goods and services offered for sale at the current inflation rate.
   C) final goods and services offered for sale at different inflation rates.
   D) intermediate and final goods and service offered for sale at different inflation rates.
   Answer: C
   Ques Status: Revised
   AACSB: Reflective thinking skills

2) The aggregate supply curve shows the relationship between
   A) the level of inputs and aggregate output.
   B) the inflation rate and the level of inputs.
   C) the wage rate and the level of employment.
   D) the inflation rate and the level of aggregate output supplied.
   Answer: D
   Ques Status: Revised
   AACSB: Reflective thinking skills

3) The long-run rate of unemployment to which an economy always gravitates is the
   A) normal rate of unemployment.
   B) natural rate of unemployment.
   C) neutral rate of unemployment.
   D) inflationary rate of unemployment.
   Answer: B
   Ques Status: Previous Edition
   AACSB: Reflective thinking skills

4) The long-run aggregate supply curve is
   A) a vertical line through the non-inflationary rate of output.
   B) a vertical line through the current level of output.
   C) a vertical line through the natural rate level of output.
   D) a horizontal line through the current level of output.
   Answer: C
   Ques Status: Previous Edition
   AACSB: Reflective thinking skills

5) The long-run aggregate supply curve is a vertical line passing through
   A) the natural rate of output.
   B) the natural-rate price level.
   C) the actual rate of unemployment.
   D) the expected rate of inflation.
   Answer: A
   Ques Status: Previous Edition
   AACSB: Reflective thinking skills
6) _______ flexible wages and prices imply that the short-run aggregate supply curve is _______.
A) More; flatter  
B) Less; steeper  
C) less; vertical  
D) More; steeper  
Answer: D  
Ques Status: New  
AACSB: Analytic skills

7) Everything else held constant, when actual output exceeds the natural rate of output _______ aggregate supply _______.
A) short-run; decreases  
B) short-run; increases  
C) long-run; increases  
D) long-run; decreases  
Answer: A  
Ques Status: Previous Edition  
AACSB: Analytic skills

8) Everything else held constant, if workers expect an increase in inflation, _______ aggregate supply _______.
A) long-run; increases  
B) long-run; decreases  
C) short-run; decreases  
D) short-run; increases  
Answer: C  
Ques Status: Revised  
AACSB: Analytic skills

9) Everything else held constant, a change in workers' expectations about inflation will cause _______ to change.
A) aggregate demand  
B) short-run aggregate supply  
C) the production function  
D) long-run aggregate supply  
Answer: B  
Ques Status: Revised  
AACSB: Analytic skills
10) Which of the following increases aggregate supply in the short-run, everything else held constant?
A) An increase in the price of crude oil.
B) A successful wage push by workers.
C) Expectations of a higher inflation.
D) A technological improvement that increases worker productivity.
Answer:  D
Ques Status: Revised
AACSB: Analytic skills

22.3 Shifts in Aggregate Supply Curves

1) The long-run aggregate supply curve shifts to the right when there is
A) a decrease in the total amount of capital in the economy.
B) a decrease in the total amount of labor supplied in the economy.
C) a decrease in the available technology.
D) a decline in the natural rate of unemployment.
Answer:  D
Ques Status: New
AACSB: Analytic skills

2) The long-run aggregate supply curve shifts to the right when there is
A) an increase in the total amount of capital in the economy.
B) an increase in the available technology.
C) a decrease in the natural rate of unemployment.
D) A and B.
E) A, B, and C.
Answer:  E
Ques Status: New
AACSB: Analytic skills

3) The short-run aggregate supply curve shifts to the right when
A) output gap is higher.
B) output gap is lower.
C) expected inflation is higher.
D) expected inflation is lower.
Answer:  D
Ques Status: New
AACSB: Analytic skills
4) Which of the followings does not shift the short-run aggregate supply curve?
A) supply shocks.
B) persistent positive output gap.
C) changes in expected inflation.
D) an increase in output gap.
Answer: D
Ques Status: New
AACSB: Analytic skills

22.4 Equilibrium in Aggregate Demand and Supply Analysis

1) The fact that an economy always returns to the natural rate level of output is known as
A) the excess demand hypothesis.
B) the price-adjustment mechanism.
C) the self-correcting mechanism.
D) the natural rate of unemployment.
Answer: C
Ques Status: Previous Edition
AACSB: Reflective thinking skills

2) Assuming the economy is starting at the natural rate of output and everything else held constant, the effect of ________ in aggregate ________ is a rise in both inflation and output in the short-run, but in the long-run the only effect is a rise in inflation.
A) a decrease; supply
B) a decrease; demand
C) an increase; supply
D) an increase; demand
Answer: D
Ques Status: Revised
AACSB: Reflective thinking skills

3) Suppose the economy is producing at the natural rate of output. Assuming a fixed natural rate of output and everything else held constant, the development of a new, more productive technology will cause ________ in the unemployment rate in the short run and ________ in inflation in the short run.
A) an increase; an increase
B) a decrease; a decrease
C) a decrease; an increase
D) no change; no change
Answer: B
Ques Status: Revised
AACSB: Analytic skills
4) Suppose the economy is producing at the natural rate of output. Assuming a fixed natural rate of output and everything else held constant, the development of a new, more productive technology will cause ________ in the unemployment rate in the long run and ________ in inflation in the short run.
A) an increase; an increase
B) a decrease; a decrease
C) no change; a decrease
D) no change; no change
Answer: C
Ques Status: Revised
AACSB: Analytic skills

5) Suppose the economy is producing at the natural rate of output. Assuming a fixed natural rate of output and everything else held constant, the development of a new, more productive technology will cause ________ in the unemployment rate and ________ in the inflation in the long run.
A) an increase; an increase
B) a decrease; a decrease
C) a decrease; an increase
D) no change; no change
Answer: D
Ques Status: Revised
AACSB: Analytic skills

22.5 Changes in Equilibrium: Aggregate Demand Shocks

1) Suppose the economy is producing at the natural rate of output. An increase in consumer and business confidence will cause ________ in real GDP in the short run and ________ in inflation in the short run, everything else held constant.
A) an increase; an increase
B) a decrease; a decrease
C) no change; an increase
D) no change; a decrease
Answer: A
Ques Status: Revised
AACSB: Analytic skills

2) Suppose the economy is producing at the natural rate of output. An increase in consumer and business confidence will cause ________ in real GDP in the long run and ________ in inflation in the long run, everything else held constant.
A) an increase; an increase
B) a decrease; a decrease
C) no change; an increase
D) no change; a decrease
Answer: C
Ques Status: Revised
AACSB: Analytic skills
3) Suppose the economy is producing at the natural rate of output. A decrease in consumer and business confidence will cause ________ in real GDP in the short run and ________ in inflation in the short run, everything else held constant.
A) an increase; an increase
B) a decrease; a decrease
C) no change; an increase
D) no change; a decrease
Answer: B
Ques Status: Revised
AACSB: Analytic skills

4) Suppose the economy is producing at the natural rate of output. A decrease in consumer and business confidence will cause ________ in real GDP in the long run and ________ in inflation in the long run, everything else held constant.
A) an increase; an increase
B) a decrease; a decrease
C) no change; an increase
D) no change; a decrease
Answer: D
Ques Status: Revised
AACSB: Analytic skills

5) Suppose the economy is producing at the natural rate of output. An open market purchase of bonds by the Fed will cause ________ in real GDP in the short run and ________ in inflation in the short run, everything else held constant.
A) an increase; an increase
B) a decrease; a decrease
C) no change; an increase
D) no change; a decrease
Answer: A
Ques Status: Revised
AACSB: Analytic skills

6) Suppose the economy is producing at the natural rate of output. An open market purchase of bonds by the Fed will cause ________ in real GDP in the long run and ________ in inflation in the long run, everything else held constant.
A) an increase; an increase
B) a decrease; a decrease
C) no change; an increase
D) no change; a decrease
Answer: C
Ques Status: Revised
AACSB: Analytic skills
7) Suppose the economy is producing at the natural rate of output. An open market sale of bonds by the Fed will cause ________ in real GDP in the short run and ________ in inflation in the short run, everything else held constant.
A) an increase; an increase
B) a decrease; a decrease
C) no change; an increase
D) no change; a decrease
Answer: B
Ques Status: Revised
AACSB: Analytic skills

8) Suppose the economy is producing at the natural rate of output. An open market sale of bonds by the Fed will cause ________ in real GDP in the long run and ________ in inflation in the long run, everything else held constant.
A) an increase; an increase
B) a decrease; a decrease
C) no change; an increase
D) no change; a decrease
Answer: D
Ques Status: Revised
AACSB: Analytic skills

9) Suppose the U.S. economy is producing at the natural rate of output. A depreciation of the U.S. dollar will cause ________ in real GDP in the short run and ________ in inflation in the short run, everything else held constant. (Assume the depreciation causes no effects in the supply side of the economy.)
A) an increase; an increase
B) a decrease; a decrease
C) no change; an increase
D) no change; a decrease
Answer: A
Ques Status: Revised
AACSB: Analytic skills

10) Suppose the U.S. economy is producing at the natural rate of output. A depreciation of the U.S. dollar will cause ________ in real GDP in the short run and ________ in inflation in the long run, everything else held constant. (Assume the depreciation causes no effects in the supply side of the economy.)
A) an increase; an increase
B) a decrease; a decrease
C) no change; an increase
D) no change; a decrease
Answer: A
Ques Status: Revised
AACSB: Analytic skills
11) Suppose the U.S. economy is producing at the natural rate of output. An appreciation of the U.S. dollar will cause ________ in real GDP in the short run and ________ in inflation in the short run, everything else held constant. (Assume the appreciation causes no effects in the supply side of the economy.)
A) an increase; an increase
B) a decrease; a decrease
C) no change; an increase
D) no change; a decrease
Answer: B
Ques Status: Revised
AACSB: Analytic skills

12) Suppose the U.S. economy is producing at the natural rate of output. An appreciation of the U.S. dollar will cause ________ in real GDP in the short run and ________ in inflation in the long run, everything else held constant. (Assume the appreciation causes no effects in the supply side of the economy.)
A) an increase; an increase
B) a decrease; a decrease
C) no change; an increase
D) no change; a decrease
Answer: B
Ques Status: Revised
AACSB: Analytic skills

13) Suppose the economy is producing below the natural rate of output and the government is suffering from large budget deficits. To deal with the deficit problem, suppose the government takes a policy action to reduce the size of the deficits. This policy action will cause ________ in the unemployment rate in the short run and ________ in inflation in the short run, everything else held constant.
A) an increase; an increase
B) a decrease; a decrease
C) a decrease; an increase
D) an increase; a decrease
Answer: D
Ques Status: Revised
AACSB: Analytic skills

14) According to aggregate demand and supply analysis, the negative demand shock of 2000-2004 had the effect of
A) increasing aggregate output, lowering unemployment, and raising inflation.
B) decreasing aggregate output, raising unemployment, and raising inflation.
C) increasing aggregate output, lowering unemployment, and lowering inflation.
D) decreasing aggregate output, raising unemployment, and lowering inflation.
Answer: D
Ques Status: Previous Edition
AACSB: Reflective thinking skills
15) Using the aggregate demand-aggregate supply model, explain and demonstrate graphically the short-run and long-run effects of an increase in the money supply.

Answer: See figure below.

An increase in the money supply increases aggregate demand, from AD to AD'. The economy moves from point 1 to point 2. In the short run both inflation rate and real output increase. In the long run, wages adjust, decreasing short-run aggregate supply, to AS', raising prices further and reducing real output until the economy returns to the natural level of output. The long-run result is to only increase inflation. The path is from 1 to 2 to 3.

Ques Status: Revised
AACSB: Reflective thinking skills

22.6 Changes in Equilibrium: Aggregate Supply (Price) Shocks

1) Everything else held constant, an increase in the cost of production ______ aggregate ______.
   A) increases; demand
   B) decreases; demand
   C) increases; supply
   D) decreases; supply
   Answer: D
   Ques Status: Previous Edition
   AACSB: Analytic skills

2) Everything else held constant, a decrease in the cost of production ______ aggregate ______.
   A) increases; demand
   B) decreases; demand
   C) increases; supply
   D) decreases; supply
   Answer: C
   Ques Status: Previous Edition
   AACSB: Analytic skills
3) Everything else held constant, when output is ________ the natural rate level, wages will begin to ________, increasing short-run aggregate supply.
A) above; fall
B) above; rise
C) below; fall
D) below; rise
Answer: C
Ques Status: Previous Edition
AACSB: Analytic skills

4) Everything else held constant, when output is ________ the natural rate level, wages will begin to ________, decreasing short-run aggregate supply.
A) above; fall
B) above; rise
C) below; fall
D) below; rise
Answer: B
Ques Status: Previous Edition
AACSB: Analytic skills

5) If workers demand and receive higher real wages (a successful wage push), the cost of production ________ and the short-run aggregate supply curve shifts ________.
A) rises; leftward
B) rises; rightward
C) falls; leftward
D) falls; rightward
Answer: A
Ques Status: Previous Edition
AACSB: Analytic skills

6) A decrease in the availability of raw materials that increases the price level is called a ________ shock
A) negative demand
B) positive demand
C) negative supply
D) positive supply
Answer: C
Ques Status: Previous Edition
AACSB: Reflective thinking skills
7) A negative supply shock causes ________ to ________.
A) aggregate demand; increase
B) aggregate demand; decrease
C) short-run aggregate supply; decrease
D) short-run aggregate supply; increase
Answer: C
Ques Status: Previous Edition
AACSB: Reflective thinking skills

8) A positive supply shock causes ________ to ________.
A) aggregate demand; increase
B) aggregate demand; decrease
C) short-run aggregate supply; decrease
D) short-run aggregate supply; increase
Answer: D
Ques Status: Previous Edition
AACSB: Reflective thinking skills

9) Suppose the economy is producing at the natural rate of output and the government passes legislation that severely restricts a company's ability to reduce production costs via outsourcing. Everything else held constant, this policy action will cause ________ in the unemployment rate in the short run and ________ in inflation in the short run.
A) an increase; an increase
B) a decrease; a decrease
C) a decrease; an increase
D) no change; no change
Answer: A
Ques Status: Revised
AACSB: Analytic skills

10) Suppose the U.S. economy is operating at potential output. A negative supply shock that is accommodated by an open market purchase by the Federal Reserve will cause ________ in real GDP in the long run and ________ in inflation in the long run, everything else held constant.
A) no change; an increase
B) no change; a decrease
C) an increase; an increase
D) a decrease; a decrease
Answer: A
Ques Status: Revised
AACSB: Analytic skills
11) A theory of aggregate economic fluctuations called real business cycle theory holds that
A) changes in the real money supply are the only demand shocks that affect the natural rate of output.
B) aggregate demand shocks do affect the natural rate of output.
C) aggregate supply shocks do affect the natural rate of output.
D) changes in net exports are the only demand shocks that affect the natural rate of output.
Answer: C
Ques Status: Previous Edition
AACSB: Reflective thinking skills

12) This theory views shocks to tastes (workers' willingness to work, for example) and technology (productivity) as the major driving forces behind short-run fluctuations in the business cycle because these shocks lead to substantial short-run fluctuations in the natural rate of output.
A) The natural rate hypothesis
B) Hysteresis
C) Real business cycle theory
D) The Phillips curve model
Answer: C
Ques Status: Previous Edition
AACSB: Reflective thinking skills

13) Because shifts in aggregate demand are not viewed as being particularly important to aggregate output fluctuations, they do not see much need for activist policy to eliminate high unemployment. "They" refers to proponents of
A) the natural rate hypothesis.
B) monetarism.
C) the Phillips curve model.
D) real business cycle theory.
Answer: D
Ques Status: Previous Edition
AACSB: Reflective thinking skills

14) According to aggregate demand and supply analysis, America's involvement in the Vietnam War had the effect of
A) increasing aggregate output, lowering unemployment, and raising the inflation.
B) decreasing aggregate output, lowering unemployment, and lowering the inflation.
C) increasing aggregate output, raising unemployment, and raising the inflation.
D) decreasing aggregate output, raising unemployment, and lowering the inflation.
Answer: A
Ques Status: Revised
AACSB: Reflective thinking skills
15) According to aggregate demand and supply analysis, the negative supply shocks of 1973-1975 and 1978-1980 had the effect of
A) increasing aggregate output, lowering unemployment, and raising the inflation.
B) decreasing aggregate output, raising unemployment, and raising the inflation.
C) increasing aggregate output, raising unemployment, and raising the inflation.
D) decreasing aggregate output, raising unemployment, and lowering the inflation.
Answer: B
Ques Status: Revised
AACSB: Reflective thinking skills

16) According to aggregate demand and supply analysis, the favorable supply shock of 1995-1999 had the effect of
A) increasing aggregate output, lowering unemployment, and raising inflation.
B) decreasing aggregate output, raising unemployment, and raising inflation.
C) increasing aggregate output, lowering unemployment, and lowering inflation.
D) decreasing aggregate output, raising unemployment, and lowering inflation.
Answer: C
Ques Status: Previous Edition
AACSB: Reflective thinking skills

17) According to aggregate demand and supply analysis, the rising oil prices coupled with the global financial crisis in 2007-2008 caused the unemployment rate to ________ and the level of real aggregate output to ________.
A) increase; increase
B) increase; decrease
C) decrease; increase
D) decrease; decrease
Answer: B
Ques Status: Revised
AACSB: Reflective thinking skills
18) Explain and demonstrate graphically the effects of a negative supply shock in both the short-run and long-run.
Answer: See figure below.

The supply shock decreases short-run aggregate supply from $AS_1$ to $AS_2$, reducing real output and raising inflation rate, or from points 1 to 2 in the graph. In the long run, the supply curve eventually adjusts back to the original position as wages fall. The economy adjusts from 2 back to 1.
Ques Status: Revised
AACSB: Reflective thinking skills

22.7 AD/AS Analysis of Foreign Business Cycle Episodes

1) The price of a barrel of oil doubled between 2007 and the middle of 2008. To make matters worse, a financial crisis hit the U.S. economy starting in August of 2007. Which of the following is an appropriate description of the mechanism that would have ensued?
A) The increase in the price of oil would have immediately shifted the $AS$ curve to the right.
B) The financial crisis would have led to a sharp contraction in spending shifting the $AD$ curve to the right.
C) Shifts in both the $AD$ and the $AS$ curve would have ensued in the short-run but as long as neither shock had an impact on potential output, ultimately unemployment will have been unaffected in the long run.
D) All of the above.
E) None of the above.
Answer: C
Ques Status: New
AACSB: Reflective thinking skills
2) The price of a barrel of oil doubled between 2007 and the middle of 2008. To make matters worse, a financial crisis hit the U.S. economy starting in August of 2007. Which of the following is true of the United Kingdom's experience?
A) The increase in the price of oil immediately shifted the AS curve to the left.
B) The financial crisis did not take hold right away so the AD curve did not immediately shift.
C) Eventually, the Lehman Brothers bankruptcy caused a negative demand shock leading to a further fall in output and an increase in the unemployment rate.
D) All of the above.
E) None of the above.
Answer: D
Ques Status: New
AACSB: Reflective thinking skills

3) The price of a barrel of oil doubled between 2007 and the middle of 2008. To make matters worse, a financial crisis hit the U.S. economy starting in August of 2007. Which of the following is true of the Chinese experience?
A) The worldwide decline in demand led to a collapse of Chinese exports.
B) Instead of relying solely on the economy's self-correcting mechanism, much more aggressive fiscal expansions than those of the U.S. (in addition to a substantial monetary easing) served to shift the AD curve back to general equilibrium relatively quickly.
C) The Chinese economy was better able than the U.S. economy to weather the financial crisis with output growth starting to grow earlier and more quickly than that of the U.S.
D) All of the above.
E) None of the above.
Answer: D
Ques Status: New
AACSB: Reflective thinking skills

4) In the long run, following a combination of a negative demand shock and a temporary negative supply shock,
A) both inflation and output return to the original long-run equilibrium values.
B) inflation is permanently increased, while output returns to potential output.
C) output returns to potential output, while inflation may be higher or lower than its initial value.
D) inflation is permanently reduced, while output returns to potential output.
E) None of the above.
Answer: D
Ques Status: New
AACSB: Reflective thinking skills
5) As of 2009, China's economy had recovered from the global recession that began in 2008. Use aggregate demand and aggregate supply analysis to explain why, and to explain the likely consequences for China of an increase in the growth rate of the global economy.

Answer: Policy in China reversed the decline in aggregate demand, substituting fiscal and monetary stimulus for the reduced demand for China's exports. The result was a rapid recovery of output and avoidance of downward shifts of the short-run aggregate supply curve that would have meant declining inflation. With output at or near potential in China, the rise in exports that will accompany faster growth of the global economy will cause a positive output gap and accelerating inflation, unless policy makers in China can again intervene with policies to counteract the positive output gap.

22.8 Appendix: The Phillips Curve and the Short-Run Aggregate Supply Curve

1) The Phillips curve indicates that when the labor market is ________, production costs will ________ and aggregate supply increases.
   A) easy; rise
   B) easy; fall
   C) tight; fall
   D) tight; rise
   Answer: B
   Ques Status: Previous Edition
   AACSB: Analytic skills

2) The Phillips curve indicates that when the labor market is ________, production costs will ________ and aggregate supply decreases.
   A) easy; rise
   B) easy; fall
   C) tight; fall
   D) tight; rise
   Answer: D
   Ques Status: Previous Edition
   AACSB: Analytic skills

3) The expectations-augmented Phillips curve implies that as expected inflation increases, nominal wages ________ to prevent real wages from ________.
   A) fall; rising
   B) fall; falling
   C) rise; falling
   D) rise; rising
   Answer: C
   Ques Status: Previous Edition
   AACSB: Reflective thinking skills