

AP MACROECONOMICS

UNIT 5 PRACTICE QUESTIONS

1.

An increase in which of the following would cause the long-run aggregate supply curve to shift to the right?

- (A) Corporate income tax rates
- (B) Aggregate demand
- (C) Potential output
- (D) The average wage rate
- (E) The price level

2.

If businesses are experiencing an unplanned increase in inventories, which of the following is most likely to be true?

- (A) Aggregate demand is greater than output, and the level of spending will increase.
- (B) Aggregate demand is less than output, and the level of spending will decrease.
- (C) The economy is growing and will continue to grow until a new equilibrium level of spending is reached.
- (D) Planned investment is greater than planned saving, and the level of spending will decrease.
- (E) Planned investment is less than planned saving, and the level of spending will increase.

3.

Which of the following policies would most likely be recommended in an economy with an annual inflation rate of 3 percent and an unemployment rate of 11 percent?

- (A) An increase in transfer payments and an increase in the reserve requirement
- (B) An increase in defense spending and an increase in the discount rate
- (C) An increase in income tax rates and a decrease in the reserve requirement
- (D) A decrease in government spending and the open-market sale of government securities
- (E) A decrease in the tax rate on corporate profits and a decrease in the discount rate

4.

Which of the following combinations of monetary and fiscal policies is coordinated to increase output?

Monetary Policy

- (A) Decrease the reserve requirement
- (B) Increase the discount rate
- (C) Sell securities
- (D) Sell securities
- (E) Purchase securities

Fiscal Policy

- Increase taxes
- Increase government expenditures
- Increase taxes
- Decrease government expenditures
- Decrease taxes

5.

Which of the following is a possible cause of stagflation (simultaneous high unemployment and high inflation)?

- (A) Increase in labor productivity
- (B) Increase in price for raw materials
- (C) The rapid growth and development of the computer industry
- (D) A decline in labor union membership
- (E) A low growth rate of the money supply

6.

According to the classical economists, which of the following is most sensitive to interest rates?

- (A) Consumption
- (B) Investment
- (C) Government spending
- (D) Transfer payments
- (E) Intermediate goods

7.

Expansionary fiscal policy will be most effective when

- (A) the aggregate supply curve is horizontal
- (B) the economy is at or above full-employment output
- (C) transfer payments are decreased, while taxes remain unchanged
- (D) wages and prices are very flexible
- (E) the Federal Reserve simultaneously increases the reserve requirement

8.

Which of the following would result in the largest increase in aggregate demand?

- (A) A \$30 billion increase in military expenditure and a \$30 billion open-market purchase of government securities
- (B) A \$30 billion increase in military expenditure and a \$30 billion open-market sale of government securities
- (C) A \$30 billion tax cut and a \$30 billion open-market sale of government securities
- (D) A \$30 billion tax increase and a \$30 billion open-market purchase of government securities
- (E) A \$30 billion increase in social security payments and a \$30 billion open-market sale of government securities

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9.

Which of the following policies is most likely to encourage long-run economic growth in a country?

- (A) An embargo on high-technology imports
- (B) A decline in the number of immigrants to the country
- (C) An increase in government transfer payments
- (D) An increase in the per capita savings rate
- (E) An increase in defense spending

10.

According to the Keynesian model, which of the following would increase aggregate demand?

- (A) An increase in autonomous investment
- (B) An increase in the discount rate
- (C) A decrease in unemployment compensation payments
- (D) A decrease in government expenditures accompanied by an equal reduction in taxes
- (E) A decrease in government expenditures on public works

11.

In an economy at full employment, a presidential candidate proposes cutting the government debt in half in four years by increasing income tax rates and reducing government expenditures. According to Keynesian theory, implementation of these policies is most likely to increase

- (A) unemployment
- (B) consumer prices
- (C) aggregate demand
- (D) aggregate supply
- (E) the rate of economic growth

12.

An aggregate supply curve may be horizontal over some range because within that range

- (A) a higher price level leads to higher interest rates, which reduce the money supply and consumer spending
- (B) changes in the aggregate price level do not induce substitution
- (C) output cannot be increased unless prices and interest rates increase
- (D) rigid prices prevent employment from fluctuating
- (E) resources are underemployed and an increase in demand will be satisfied without any pressure on the price level

13.

Which of the following relationships is illustrated by a short-run Phillips curve?

- (A) A decrease in the rate of inflation is accompanied by an increase in the rate of economic growth.
- (B) A decrease in the rate of inflation is accompanied by an increase in the rate of unemployment.
- (C) An increase in the rate of inflation is accompanied by a decrease in the rate of economic growth.
- (D) An increase in the rate of inflation is accompanied by an increase in the rate of unemployment.
- (E) A decrease in the rate of economic growth is accompanied by a decrease in the rate of unemployment.

14.

Which of the following could cause simultaneous increases in inflation and unemployment?

- (A) A decrease in government spending
- (B) A decrease in the money supply
- (C) A decrease in the velocity of money
- (D) An increase in inflationary expectations
- (E) An increase in the overall level of productivity

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15.

An increase in which of the following is most likely to cause an improvement in the standard of living over time?

- (A) Size of the population
- (B) Size of the labor force
- (C) Number of banks
- (D) Level of taxation
- (E) Productivity of labor

16.

The long-run aggregate supply curve is likely to shift to the right when there is

- (A) an increase in the cost of productive resources
- (B) an increase in productivity
- (C) an increase in the federal budget deficit
- (D) a decrease in the money supply
- (E) a decrease in the labor force

17.

Which of the following is a basic tenet of classical economic analysis?

- (A) Saving is usually greater than investment.
- (B) The economy is self-correcting to full employment.
- (C) The economy may be in equilibrium at less than full employment.
- (D) Inflation is not a serious economic problem.
- (E) The prices of products tend to be inflexible.

18.

An inflationary gap could be reduced by

- (A) an increase in government spending
- (B) an increase in the supply of money
- (C) an increase in the income tax rate
- (D) a decrease in the discount rate
- (E) a decrease in the reserve requirement

19.

During a mild recession, if policymakers want to reduce unemployment by increasing investment, which of the following policies would be most appropriate?

- (A) Equal increases in government expenditure and taxes
- (B) An increase in government expenditure only
- (C) An increase in transfer payments
- (D) An increase in the reserve requirement
- (E) Purchase of government securities by the Federal Reserve

20.

Which of the following is true of supply shocks?

- (A) They tend to change both relative prices and the general price level in the economy.
- (B) They affect only the general price level.
- (C) They can be anticipated and offset with appropriate fiscal policy.
- (D) They can be anticipated and offset with appropriate monetary policy.
- (E) They make the aggregate supply curve vertical.

21.

Which of the following is a key feature of Keynesian economics?

- (A) The level of saving depends mostly on interest rates.
- (B) The level of government expenditure depends mostly on interest rates.
- (C) Supply creates its own demand.
- (D) Macroeconomic equilibrium can occur at less than full employment.
- (E) Wages are more flexible than prices.

22.

If a large increase in total spending has no effect on real gross domestic product, it must be true that

- (A) the price level is rising
- (B) the economy is experiencing high unemployment
- (C) the spending multiplier is equal to 1
- (D) the economy is in short-run equilibrium
- (E) aggregate supply has increased

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23.

According to Keynesian theory, the most important determinant of saving and consumption is the

- (A) interest rate
- (B) price level
- (C) level of income
- (D) level of employment
- (E) flexibility of wages and prices

24.

Under which of the following circumstances would increasing the money supply be most effective in increasing real gross domestic product?

	<u>Interest Rates</u>	<u>Employment</u>	<u>Business Optimism</u>
(A)	High	Full	High
(B)	High	Less than full	High
(C)	Low	Full	High
(D)	Low	Full	Low
(E)	Low	Less than full	Low

25.

According to both monetarists and Keynesians, which of the following happens when the Federal Reserve reduces the discount rate?

- (A) The demand for money decreases and market interest rates decrease.
- (B) The demand for money increases and market interest rates increase.
- (C) The supply of money increases and market interest rates decrease.
- (D) The supply of money increases and market interest rates increase.
- (E) Both the demand for money and the supply of money increase and market interest rates increase.

26.

An increase in which of the following is most likely to increase the long-run growth rate of an economy's real per capita income?

- (A) Population growth
- (B) The proportion of gross domestic product consumed
- (C) The educational attainment of the population
- (D) The supply of money in circulation
- (E) Personal income taxes

27.

An increase in the money supply will have the greatest effect on real gross domestic product if

- (A) the marginal propensity to consume is low
- (B) unemployment is very low
- (C) investment spending is not sensitive to changes in interest rates
- (D) the quantity of money demanded is not very sensitive to interest rates
- (E) the required reserve ratio is high

28.

Which of the following arguments is typically associated with classical economists?

- (A) A market economy is self-correcting and thus will not remain in a recession indefinitely.
- (B) A market economy has stable prices and thus is usually free from inflation.
- (C) A market economy requires a strong government to ensure that the market meets the needs of the people.
- (D) A market economy needs only moderate assistance from the government to avoid an extended recession.
- (E) A market economy eventually results in monopolies in both the input and output markets.

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29.

Which of the following will occur if the federal government runs a budget deficit?

- (A) The expenditure multiplier will increase.
- (B) The size of the national debt will increase.
- (C) The economy's output will decrease.
- (D) State governments will run a budget surplus to offset the federal deficit.
- (E) Interest rates will tend to decline.

30.

In the Keynesian model, an expansionary monetary policy will lead to

- (A) lower real interest rates and more investment.
- (B) lower real interest rates and lower prices
- (C) higher real interest rates and lower prices
- (D) higher real interest rates and higher real income
- (E) higher nominal interest rates and more investment

31.

An inflationary gap can be eliminated by all of the following EXCEPT

- (A) an increase in personal income taxes
- (B) an increase in the money supply
- (C) an increase in interest rates
- (D) a decrease in government spending
- (E) a decrease in net exports

32.

If the economy is operating in the intermediate range of the aggregate supply curve and if aggregate demand increases due to an increase in net exports, then the price level, output, and the unemployment rate are most likely to change in which of the following ways?

Price Level	Output	Unemployment Rate
(A) Increase	Increase	Increase
(B) Increase	Increase	Decrease
(C) Increase	Decrease	Increase
(D) Increase	Decrease	Decrease
(E) Decrease	Decrease	Increase

33.

Under which of the following conditions would a restrictive monetary policy be most appropriate?

- (A) High inflation
- (B) High unemployment
- (C) Full employment with stable prices
- (D) Low interest rates
- (E) A budget deficit

34.

Which of the following would best explain a decline in potential gross domestic product?

- (A) Negative net investment
- (B) The discovery of vast new oil deposits
- (C) A lower price level
- (D) A decrease in the infant mortality rate
- (E) A decrease in wages and profits

35.

As nations specialize in production and trade in international markets, they can expect which of the following domestic improvements?

- I. Allocation of domestic resources
- II. Standard of living
- III. Self-sufficiency

- (A) I only
- (B) II only
- (C) III only
- (D) I and II only
- (E) I, II, and III

36.

The short-run aggregate supply curve is likely to shift to the left when there is an increase in

- (A) the cost of productive resources
- (B) productivity
- (C) the money supply
- (D) the federal budget deficit
- (E) imports

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37.

If the money stock decreases but nominal gross domestic product remains constant, which of the following has occurred?

- (A) Income velocity of money has increased.
- (B) Income velocity of money has decreased.
- (C) Price level has increased.
- (D) Price level has decreased.
- (E) Real output has decreased.

38.

Crowding out due to government borrowing occurs when

- (A) lower interest rates increase private sector investment
- (B) lower interest rates decrease private sector investment
- (C) higher interest rates decrease private sector investment
- (D) a smaller money supply increases private sector investment
- (E) a smaller money supply decreases private sector investment

39.

Compared to expansionary monetary policies adopted to counteract a recession, expansionary fiscal policies tend to result in

- (A) less public spending
- (B) higher interest rates
- (C) lower prices
- (D) a high rate of economic growth
- (E) decreased investment by foreign countries

40.

According to the monetarists, which of the following is true of expansionary fiscal policy?

- (A) It will cause interest rates to rise and crowd out private investment spending.
- (B) It should not be used so long as there is a national debt.
- (C) It should be used only when some resources are unemployed and the inflation rate is low.
- (D) It will decrease aggregate income.
- (E) It will increase aggregate income as long as the money supply is decreased at a slow, steady rate.

41.

Which of the following policies would a Keynesian recommend during a period of high unemployment and low inflation?

- (A) Decreasing the money supply to reduce aggregate demand
- (B) Decreasing taxes to stimulate aggregate demand
- (C) Decreasing government spending to stimulate aggregate supply
- (D) Balancing the budget to stimulate aggregate supply
- (E) Imposing wage and price controls to stimulate aggregate supply

42.

An important assumption in Keynesian theory is that

- (A) prices are rigid downward and decreases in aggregate demand will lead to an increase in unemployment
- (B) price rigidity will cause downturns in the economy to self-correct
- (C) when aggregate demand is inadequate, prices will fall
- (D) when interest rates are high, many businesses borrow money
- (E) changes in the money supply are the major cause of changes in real output and price level

43.

Changes in which of the following factors would affect the growth of an economy?

- I. Quantity and quality of human and natural resources
 - II. Amount of capital goods available
 - III. Technology
- (A) I only
 - (B) I and II only
 - (C) I and III only
 - (D) II and III only
 - (E) I, II, and III

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44.

According to the short-run Phillips Curve, there is a trade-off between

- (A) interest rates and inflation
- (B) the growth of the money supply and interest rates
- (C) unemployment and economic growth
- (D) inflation and unemployment
- (E) economic growth and interest rates

45.

The classical economists argued that involuntary unemployment would be eliminated by

- (A) increasing government spending to increase aggregate demand
- (B) increasing the money supply to stimulate investment spending
- (C) self-correcting market forces stemming from flexible prices and wages
- (D) maintaining the growth of the money supply at a constant rate
- (E) decreasing corporate income taxes to encourage investment

46.

According to the long-run Phillips curve, which of the following is true?

- (A) Unemployment increases with an increase in inflation.
- (B) Unemployment decreases with an increase in inflation.
- (C) Increased automation will lead to lower levels of structural unemployment in the long run.
- (D) Changes in the composition of the overall demand for labor tend to be deflationary in the long run.
- (E) The natural rate of unemployment is independent of monetary and fiscal policy changes that affect aggregate demand.

47.

According to the theory of rational expectations, a fully anticipated expansionary monetary policy will

- (A) increase potential output
- (B) increase unemployment
- (C) have no impact on real output
- (D) promote the production of consumer goods over capital goods
- (E) result in deflation

48.

The long-run growth rate of an economy will be increased by an increase in all of the following EXCEPT

- (A) capital stock
- (B) labor supply
- (C) real interest rate
- (D) rate of technological change
- (E) spending on education and training

49.

Which of the following events will most likely cause an increase in both the price level and real gross domestic product?

- (A) The prime rate increases.
- (B) Exports increase.
- (C) Income taxes increase.
- (D) Crude oil prices decrease.
- (E) Inflationary expectations decrease.

50.

An increase in which of the following is consistent with an outward shift of the production possibilities curve?

- (A) Transfer payments
- (B) Aggregate demand
- (C) Long-run aggregate supply
- (D) Income tax rates
- (E) Exports

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51.

If the economy is operating at full employment and there is a substantial increase in the money supply, the quantity theory of money predicts an increase in

- (A) the velocity of money
- (B) real output
- (C) interest rates
- (D) unemployment
- (E) the price level

52.

Which of the following would indicate that economic growth has occurred?

- (A) The production possibilities curve shifts to the left.
- (B) The long-run aggregate supply curve shifts to the right.
- (C) The aggregate demand curve shifts to the right.
- (D) The Phillips curve becomes flatter.
- (E) Business cycles no longer exist.

53.

In an economy in which all prices, including wages, are completely flexible, an increase in labor productivity will result in which of the following changes in output and real wages?

<u>Output</u>	<u>Real Wages</u>
(A) Increase	Increase
(B) Increase	Decrease
(C) Decrease	No change
(D) Decrease	Increase
(E) Decrease	Decrease

54.

An advance in technology will cause the

- (A) aggregate demand curve to shift to the right
- (B) aggregate demand curve to shift to the left
- (C) short-run aggregate supply curve to shift to the left
- (D) long-run aggregate supply curve to shift to the left
- (E) long-run aggregate supply curve to shift to the right

55.

Assume that the economy is at full employment. Policymakers wish to maintain the price level but want to encourage greater investment. Which of the following combinations of monetary and fiscal policies would best achieve this goal?

<u>Monetary Policy</u>	<u>Fiscal Policy</u>
(A) No change	Contractionary
(B) Expansionary	No change
(C) Expansionary	Contractionary
(D) Expansionary	Expansionary
(E) Contractionary	Expansionary

56.

An economy is in a short-run equilibrium at a level of output that is less than full-employment output. If there were no fiscal or monetary policy interventions, which of the following changes in output and the price level would occur in the long run?

<u>Output</u>	<u>Price Level</u>
(A) Increase	Decrease
(B) Increase	Increase
(C) Decrease	Decrease
(D) Decrease	Increase
(E) No change	No change

57.

Under rational expectations, an announced expansion in the money supply will change nominal and real gross domestic products (GDP) in which of the following ways?

<u>Nominal GDP</u>	<u>Real GDP</u>
(A) Increase	Increase
(B) Increase	Decrease
(C) Increase	No change
(D) No change	Decrease
(E) No change	No change

58.

A decrease in labor productivity will shift the

- (A) aggregate demand curve to the right
- (B) aggregate demand curve to the left
- (C) long-run aggregate supply curve to the right
- (D) short-run aggregate supply curve to the right
- (E) short-run aggregate supply curve to the left

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59.

In the long run, if aggregate demand decreases, real gross domestic product (GDP) and the price level will change in which of the following ways?

<u>Real GDP</u>	<u>Price Level</u>
(A) Decrease	Decrease
(B) Decrease	Increase
(C) No change	Decrease
(D) Increase	Decrease
(E) No change	Increase

60.

Which of the following would cause the short-run aggregate supply curve to shift to the right?

- (A) An increase in the wage rate
- (B) An increase in the interest rate
- (C) An increase in the natural rate of unemployment
- (D) A decrease in the capital stock
- (E) A decrease in the expected price level

61.

Economic growth is best defined as

- (A) a reduction in the infant mortality rate
- (B) a decrease in the unemployment rate
- (C) an increase in the labor force participation rate
- (D) a short-run increase in gross domestic product without inflation
- (E) a sustained increase in real gross domestic product per capita

62.

If the velocity of money is stable, the quantity theory of money predicts that an increase in the money supply will lead to a proportional

- (A) increase in the nominal output
- (B) decrease in the price level
- (C) decrease in the nominal interest rate
- (D) decrease in the real interest rate
- (E) decrease in the unemployment rate

63.

Crowding out occurs when

- (A) increases in government spending become ineffective because tax revenues increase as income increases
- (B) government borrowing to finance its spending decreases private sector investment
- (C) monetary policy actions decrease the effectiveness of fiscal policy
- (D) restrictive monetary policy causes the interest rate to increase
- (E) government spending and private sector spending increase by the same percentage rate

64.

Which of the following is true of a horizontal aggregate supply curve?

- (A) It is the usual assumption made by classical economists analyzing the long run.
- (B) It suggests that increases in output can occur without increases in price levels.
- (C) It suggests that a shift in the aggregate demand curve will lead to a change in the price level.
- (D) It is likely to occur only in highly industrialized economies.
- (E) It cannot shift, therefore output remains constant.

65.

Which of the following statements concerning economic growth is true?

- (A) If the population is growing faster than potential output, real gross domestic product per capita will definitely increase.
- (B) With long-run economic growth, there is an increase in aggregate supply.
- (C) The gap between rich and poor must widen with long-run economic growth.
- (D) Increasing potential output necessarily increases the economic welfare of the average citizen.
- (E) Long-run economic growth is only possible with demand management policies.

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66.

Which of the following would best explain an inward shift of the production possibilities curve?

- (A) An increase in the labor-force participation rate
- (B) An increase in the rate of savings
- (C) A decrease in the quantity of inputs required to produce a unit of output
- (D) A decrease in the quality of human capital
- (E) A decrease in the government's budget deficit that leads to lower real interest rates

67.

Which of the following would most likely stimulate economic growth?

- (A) Decreased savings
- (B) Decreased wages
- (C) Increased transfer payments
- (D) Increased personal income taxes
- (E) Technological progress

68.

A leftward shift of the long-run aggregate supply curve is most likely consistent with an improvement in a country's standard of living if

- (A) prices fall
- (B) depreciation increases
- (C) population decreases
- (D) taxes decrease
- (E) imports decline

69.

The economy of a country is currently in equilibrium at point A in the diagram above. If the government does nothing and wages are flexible, which of the following will most likely occur in the long run?

- (A) Falling wages will shift the aggregate demand curve to the right, producing full employment.
- (B) Rising wages will shift the aggregate demand curve to the right, producing full employment.
- (C) The economy will remain at point A.
- (D) Rising wages will shift the aggregate supply curve to the right, producing full employment.
- (E) Falling wages will shift the aggregate supply curve to the right, producing full employment.

70.

Hyperinflation is typically caused by

- (A) high tax rates that discourage work effort
- (B) continuous expansion of the money supply to finance government budget deficits
- (C) trade surpluses that are caused by strong protectionist policies
- (D) bad harvests that lead to widespread shortages
- (E) a large decline in corporate profits that leads to a decrease in production

71.

Which of the following will most likely lead to a decrease in inflationary expectations?

- (A) A decrease in the marginal propensity to save
- (B) A decrease in imports
- (C) A decrease in the money supply
- (D) An increase in the government budget deficit
- (E) An increase in the prices of raw materials

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72.

In the short run, an expansionary monetary policy would most likely result in which of the following changes in the price level and real gross domestic product (GDP) ?

<u>Price Level</u>	<u>Real GDP</u>
(A) Decrease	Increase
(B) No change	Decrease
(C) Increase	No change
(D) Increase	Decrease
(E) Increase	Increase

73.

A reduction in inflation can best be achieved by which of the following combinations of fiscal and monetary policy?

<u>Fiscal Policy</u>	<u>Monetary Policy</u>
(A) Increase taxes	Sell government bonds
(B) Decrease taxes	Buy government bonds
(C) Decrease taxes	Lower margin requirements
(D) Decrease government spending	Lower discount rate
(E) Increase government spending	Raise discount rate

74.

An increase in net investment leads to faster economic growth because capital per worker and output per worker will change in which of the following ways?

<u>Capital per Worker</u>	<u>Output per Worker</u>
(A) Increase	Increase
(B) Increase	Decrease
(C) No change	Increase
(D) Decrease	Increase
(E) Decrease	Decrease

75.

If a country's economy is operating below the full-employment level of output at a very low inflation rate, the central bank of the country is most likely to

- (A) pursue an expansionary monetary policy because it is required to do so by law whenever output is below the full-employment level
- (B) pursue an expansionary fiscal policy because it is required to do so by law whenever output is below the full-employment level
- (C) lower the discount rate and buy bonds on the open market to generate an increase in output
- (D) lower the required reserve ratio and sell bonds on the open market to generate an increase in output
- (E) raise the discount rate and lower the required reserve ratio to generate an increase in output

76.

Assume that an economy is currently in long-run equilibrium and the short-run aggregate supply curve is upward sloping. An adverse supply shock, such as a drought, will most likely cause which of the following to the economy in the short run?

- (A) A decrease in the price level and a decrease in the nominal wage
- (B) A decrease in the price level and an increase in the nominal wage
- (C) An increase in the price level and an increase in the nominal wage
- (D) An increase in the price level and an increase in the real wage
- (E) An increase in the price level and a decrease in the real wage

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77.

Which of the following statements is true of unanticipated inflation?

- (A) It decreases the economic well-being of all members of society proportionately.
- (B) It decreases the economic well-being of all members of society equally.
- (C) It increases the economic well-being of net creditors.
- (D) It increases the economic well-being of net debtors.
- (E) It increases the economic well-being of workers with long-term labor contracts.

78.

A simultaneous increase in inflation and unemployment could be explained by an increase in which of the following?

- (A) Consumer spending
- (B) The money supply
- (C) Labor productivity
- (D) Investment spending
- (E) Inflationary expectations

79.

An increase in the government budget deficit is most likely to result in an increase in which of the following?

- (A) The marginal propensity to consume
- (B) Exports
- (C) The real interest rate
- (D) The money supply
- (E) The simple multiplier

80.

Which of the following would be the initial impact on an economy if wages were to increase more than worker productivity?

- (A) There would be no initial impact, since neither the aggregate supply curve nor the aggregate demand curve would shift.
- (B) Employment would increase, causing a rightward shift in the aggregate demand curve.
- (C) The price level would increase, resulting in excess aggregate supply.
- (D) The short-run aggregate supply curve would shift to the left, increasing the price level.
- (E) The aggregate demand curve would shift to the left, increasing the price level.

81.

Which of the following occurs as investment becomes more responsive to changes in the interest rate?

- (A) Monetary policy becomes more effective at changing real gross domestic product.
- (B) Fiscal policy becomes more effective at changing real gross domestic product.
- (C) Monetary policy becomes more effective at changing interest rates.
- (D) Fiscal policy becomes more effective at changing interest rates.
- (E) There is no change in the effectiveness of either monetary or fiscal policy.

82.

The shifting of a country's production possibilities curve to the right will most likely cause

- (A) net exports to decline
- (B) inflation to increase
- (C) the aggregate demand curve to shift to the left
- (D) the long-run aggregate supply curve to shift to the left
- (E) the long-run aggregate supply curve to shift to the right

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83.

Which of the following is true about changes in tax rates, changes in the level of government expenditures, and changes in the money supply?

- (A) They are automatic stabilizers.
- (B) They are tools of discretionary fiscal policy.
- (C) They have different lag times between implementation of a policy and its effects on aggregate demand.
- (D) They are favored equally by both classical and Keynesian economists to fine-tune the economy.
- (E) All are controlled by the Federal Reserve system.

84.

An increase in which of the following would LEAST likely increase labor productivity?

- (A) Physical capital
- (B) Human capital
- (C) Technological improvements
- (D) Educational achievement
- (E) The labor force

85.

For which of the following sets of unemployment and inflation rates will a central bank be most reluctant to increase the rate of growth in the money supply?

	<u>Unemployment Rate</u>	<u>Inflation Rate</u>
(A)	10%	2%
(B)	10%	5%
(C)	10%	10%
(D)	5%	5%
(E)	5%	10%

86.

Advocates of a monetary rule recommend increasing the money supply at a rate that is equal to the rate of increase in which of the following?

- (A) Price level
- (B) Unemployment rate
- (C) Level of exports
- (D) Level of imports
- (E) Long-run real gross domestic product

87.

If economic agents perfectly anticipate policy changes and if all prices, including wages, are completely flexible, which of the following will be true in the long run?

- (A) The price level will be constant.
- (B) There will be no trade-off between inflation and unemployment.
- (C) The unemployment rate will be less than the natural rate of unemployment.
- (D) The unemployment rate will be greater than the natural rate of unemployment.
- (E) Changes in the money supply will not lead to changes in the price level.

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|-------|-------|-------|
| 1. C | 30. A | 59. C |
| 2. B | 31. B | 60. E |
| 3. E | 32. B | 61. E |
| 4. E | 33. A | 62. A |
| 5. B | 34. A | 63. B |
| 6. B | 35. D | 64. B |
| 7. A | 36. A | 65. B |
| 8. A | 37. A | 66. D |
| 9. D | 38. C | 67. E |
| 10. A | 39. B | 68. C |
| 11. A | 40. A | 69. E |
| 12. E | 41. B | 70. B |
| 13. B | 42. A | 71. C |
| 14. D | 43. E | 72. E |
| 15. E | 44. D | 73. A |
| 16. B | 45. C | 74. A |
| 17. B | 46. E | 75. C |
| 18. C | 47. C | 76. E |
| 19. E | 48. C | 77. D |
| 20. A | 49. B | 78. E |
| 21. D | 50. C | 79. C |
| 22. A | 51. E | 80. D |
| 23. C | 52. B | 81. A |
| 24. B | 53. A | 82. E |
| 25. C | 54. E | 83. C |
| 26. C | 55. C | 84. E |
| 27. D | 56. A | 85. E |
| 28. A | 57. C | 86. E |
| 29. B | 58. E | 87. B |