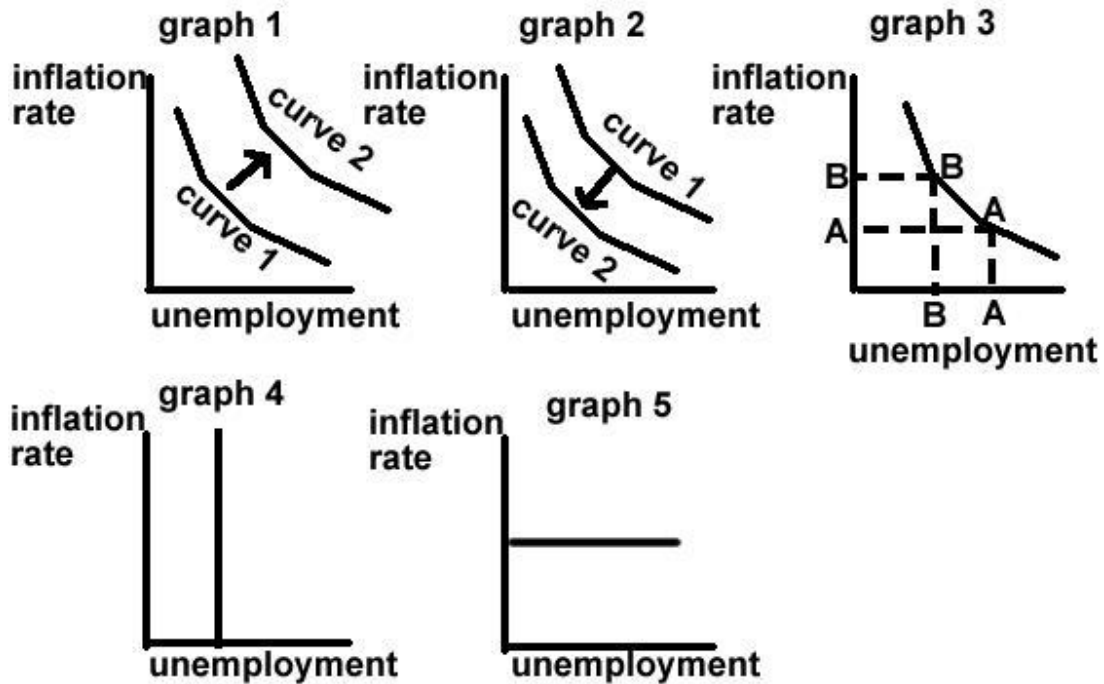


Stabilization Policies and Price level and Employment Fluctuations

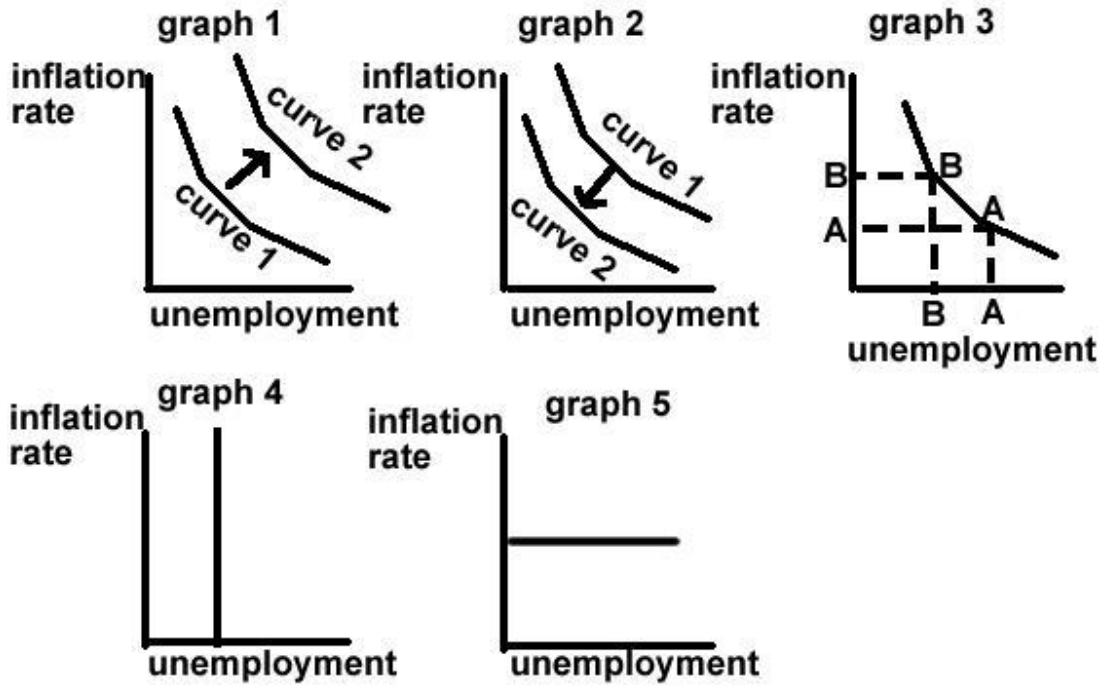
© Dick Brunelle and Steve Reff, Reffonomics 09

1. Which graph should you use to illustrate the effect of expected disinflation on the trade-off between inflation and unemployment?



- ___ (A) graph 1
- ___ (B) graph 2
- ___ (C) graph 3
- ___ (D) graph 4
- ___ (E) graph 5

2. Refer to the graphs. Which graph should you use to illustrate the long-run Phillips Curve?



- ___ (A) graph 1
- ___ (B) graph 2
- ___ (C) graph 3
- ___ (D) graph 4
- ___ (E) graph 5

3. Refer to the Table of Revenues and Expenses for the nation of Nirvana. Assume that there was neither debt nor surplus prior to the Year 1, what is Nirvana's debt at the end of year 3?

(\$billions)

Government	Year 1	Year 2	Year 3	Year 4
Revenues	200	240	300	350
Expenses	220	270	310	330

**Table of Revenues and Expenses for
the nation of Nirvana**

- (A) \$10 billion
- (B) \$20 billion
- (C) \$40 billion
- (D) \$50 billion
- (E) \$60 billion

4. Refer to the Table of Revenues and Expenses for the nation of Nirvana. Assume that there was neither debt nor surplus prior to year 1. What is Nirvana's debt at the end of Year 4?

(\$billions)

Government	Year 1	Year 2	Year 3	Year 4
Revenues	200	240	300	350
Expenses	220	270	310	330

**Table of Revenues and Expenses for
the nation of Nirvana**

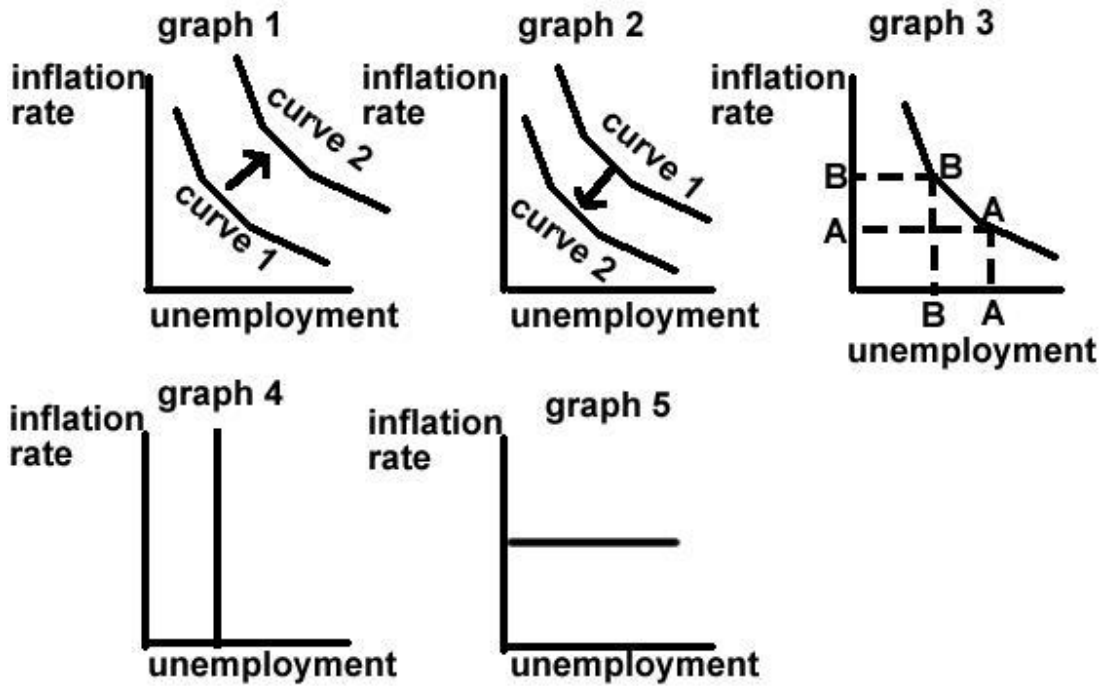
- (A) \$10 billion
- (B) \$20 billion
- (C) \$40 billion
- (D) \$50 billion
- (E) \$80 billion

5. Ceteris paribus, the sale of bonds by the Federal Open- Market Committee will most likely lead to:

- ___ (A) a decrease in interest rates
- ___ (B) an increase in the interest rates
- ___ (C) inflation
- ___ (D) increase in aggregate demand
- ___ (E) an increase in tax revenues

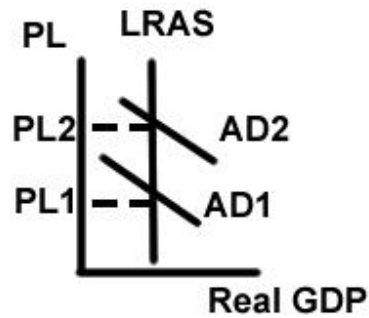
6. Refer to the graphs. Assume that the policy does not affect expectations.

Which graph should you use to illustrate the trade-off between inflation and unemployment that occurs from a policy attempt to decrease the unemployment rate below the natural rate of unemployment?



- ___ (A) graph 1
- ___ (B) graph 2
- ___ (C) graph 3
- ___ (D) graph 4
- ___ (E) graph 5

7. Refer to the graph. Which of the following best explains what is illustrated in this graph?



- (A) Economic Growth
- (B) Cost Push Inflation
- (C) Demand Pull Inflation
- (D) Increased Unemployment
- (E) Decreased Unemployment

8. Refer to the table of Government and Fed policies. Which combination of policies is most likely to have the greatest impact fighting inflation successfully?

	Government Policy	Fed Policy
A.	Increase Taxes	sell bonds
B.	Cut taxes	buy bonds
C.	Increase G purchases	buy bonds
D.	Decrease G purchases	do nothing
E.	Increase G purchases	sell bonds

- (A) Combination A
- (B) Combination B
- (C) Combination C
- (D) Combination D
- (E) Combination E

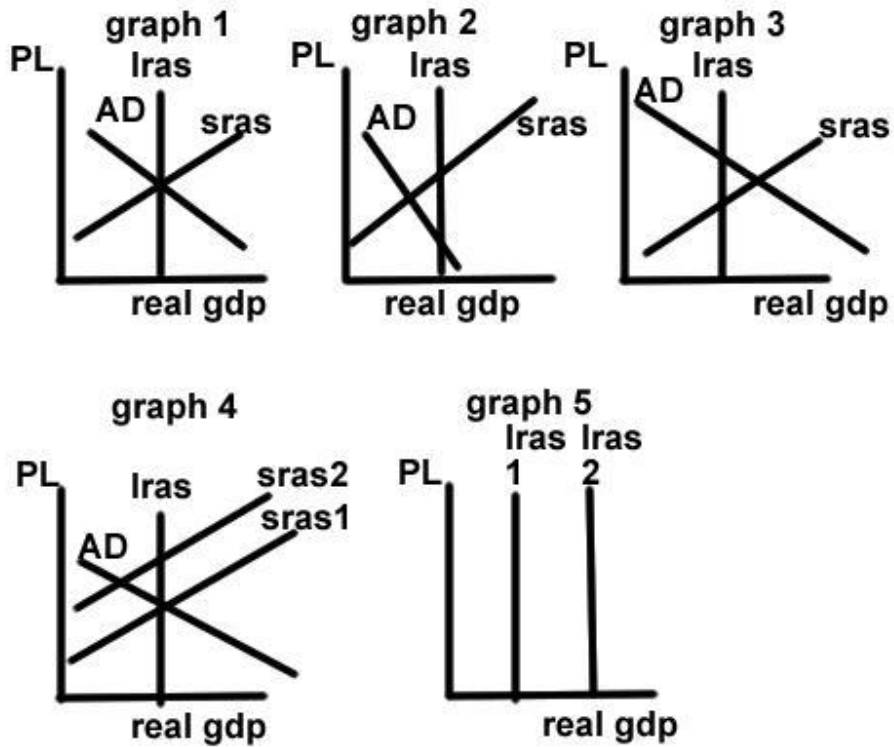
9. If the simple spending multiplier is 4 and new Government Purchases increase by \$100 Billion than the total increase in spending will be

- (A) \$25 Billion
- (B) \$100 Billion
- (C) \$400 Billion
- (D) \$300 Billion
- (E) \$500 Billion

10. Which of the following is an automatic stabilizer?

- (A) a change in the tax rate
- (B) government spending on roads and bridges
- (C) unemployment compensation
- (D) a neutral monetary policy
- (E) Pell grants

11. Refer to the ADAS graphs. Which graph best illustrates Aggregate Demand and Aggregate Supply in long-run equilibrium?



- (A) graph 1
- (B) graph 2
- (C) graph 3
- (D) graph 4
- (E) graph 5

12. If the economy is at full employment and the Government runs a deficit, which of the following is likely to happen in the short run given that no other variable changes?

- (A) Debt will decrease.
- (B) GDP will decrease.
- (C) Interest rates will increase.
- (D) Price level will decrease.
- (E) The international value of the dollar will decrease.

13. Which of the following combination of policies would have the greatest expansionary effect?

- (A) a tax increase and a lowering of interest rates at the Discount Window
- (B) an increase in Government Purchases and an Open Market Operations purchase of bonds
- (C) a tax decrease and Open Market Operations sale of bonds
- (D) a tax decrease and an Open Market Operations purchase of bonds
- (E) a decrease in Government Purchases and an increase in interest rates at the Discount Window

14. Refer to the Table of policy combinations. Which policy combination would create conflicting results?

	Government Policy	Fed Policy
A.	Increase Taxes	sell bonds
B.	Cut taxes	buy bonds
C.	Increase G purchases	buy bonds
D.	Decrease G purchases	do nothing
E.	Increase G purchases	sell bonds

- (A) combination A
- (B) combination B
- (C) combination C
- (D) combination D
- (E) combination E

15. A technological breakthrough that significantly lowers energy costs will most likely:

- (A) decrease the price level and increase output
- (B) decrease the price level and decrease output
- (C) increase the price level and increase output
- (D) increase the price level and decrease output
- (E) decrease the price level and have no affect on output

16. The equation of exchange is: $M * V = P * Q$

Using the equation of exchange model, in the short run, if real output remains constant, an increase in the money supply will not necessarily cause inflation if:

- (A) velocity decreases
- (B) price level increases
- (C) velocity increases
- (D) velocity remains constant
- (E) interest rates decrease

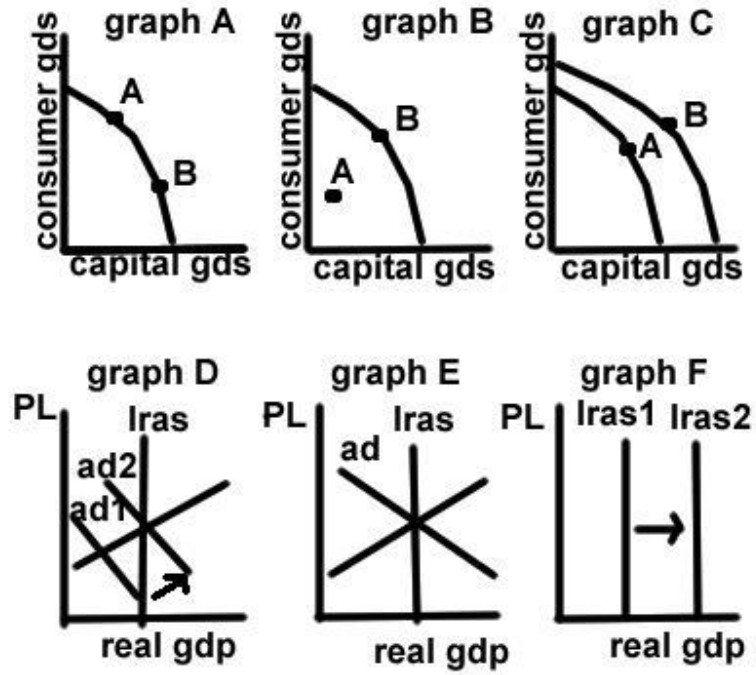
17. Which of the following would be considered an automatic stabilizer?

- (A) an increase in the tax rate
- (B) a decrease in Government Purchases
- (C) the existing tax schedule
- (D) the sale of government bonds
- (E) an increase in Government Purchases

18. In the year 1982 the nominal GDP increased by \$ 130 billion but the real GDP increased by \$122 billion. The discrepancy between these two numbers indicates the economy experienced:

- (A) Economic Stagnation
- (B) Inflation
- (C) Deflation
- (D) Technological Progress
- (E) Increased Unemployment

19. Refer to graphs. To illustrate an effective expansionary policy by policy-makers that moves an economy out of a recession, which graph or graphs can be used?



- (A) only graph A
- (B) only graph D
- (C) graphs B and F
- (D) only graph B
- (E) graphs B and D

20. The belief that the self-correcting mechanisms of the economy will quickly restore the economy to full-employment is dependent on:

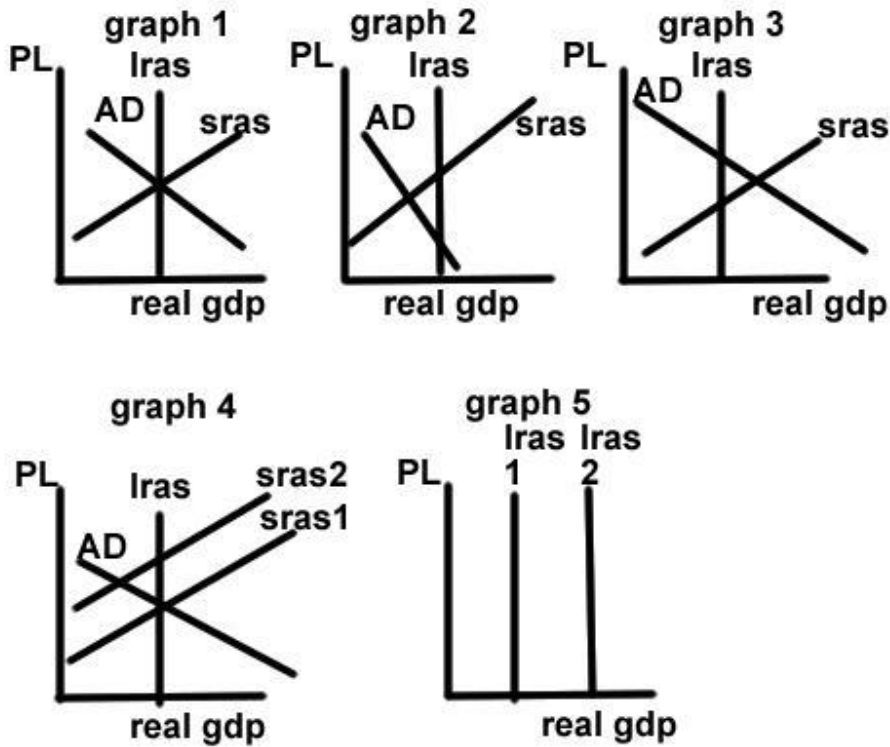
- (A) a reliable spending multiplier
- (B) a fast adjustment of wages
- (C) a fast adjustment of prices
- (D) a fast adjustment of prices and wages
- (E) a fast response by policy-makers

21. Refer to the table of policy combinations. Which combination would have the greatest initial expansionary effect?

	Government Policy	Fed Policy
A.	Increase Taxes	sell bonds
B.	Cut taxes	buy bonds
C.	Increase G purchases	buy bonds
D.	Decrease G purchases	do nothing
E.	Increase G purchases	sell bonds

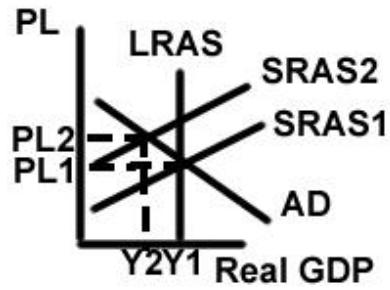
- (A) combination A
- (B) combination B
- (C) combination C
- (D) combination D
- (E) combination E

22. Refer to the ADAS graphs. Which graph best illustrates economic growth?



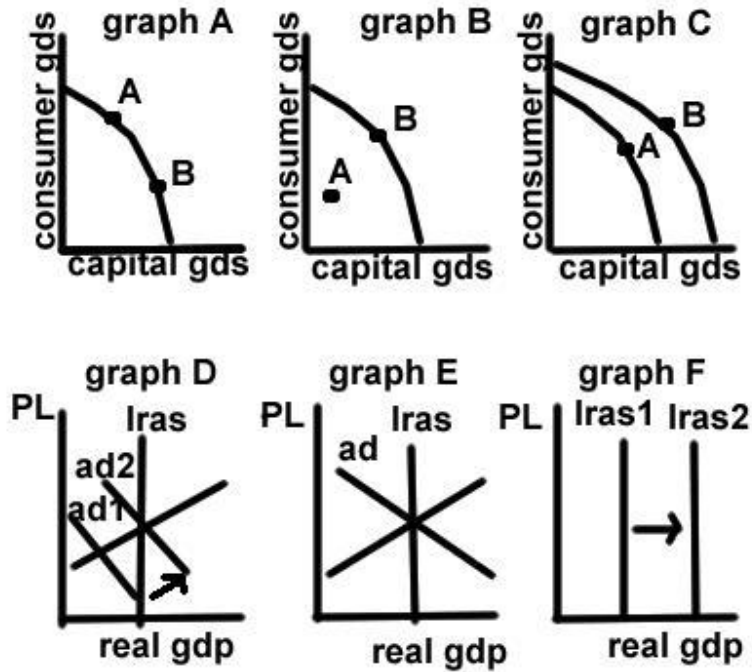
- ___ (A) graph 1
- ___ (B) graph 2
- ___ (C) graph 3
- ___ (D) graph 4
- ___ (E) graph 5

23. Refer to the graph. This graph illustrates the problem of:



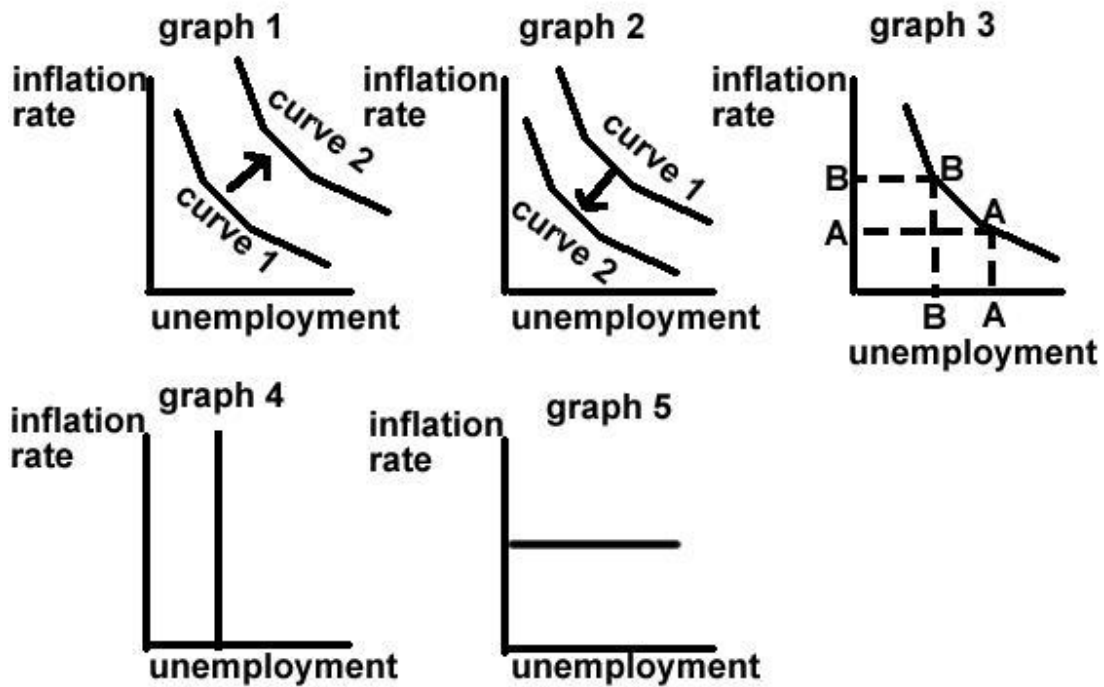
- (A) an overheated economy
- (B) stagflation
- (C) increased employment
- (D) increased productivity
- (E) deflation

24. Refer to the graphs. Which graph or graphs can be used to illustrate the effect of technological innovation?



- (A) only graph A
- (B) only graph B
- (C) only graph C
- (D) graphs C and F
- (E) graphs A and D

25. Refer to the graphs. Which graph should you use to best illustrate the affects of stagflation on the trade-off between inflation and unemployment?

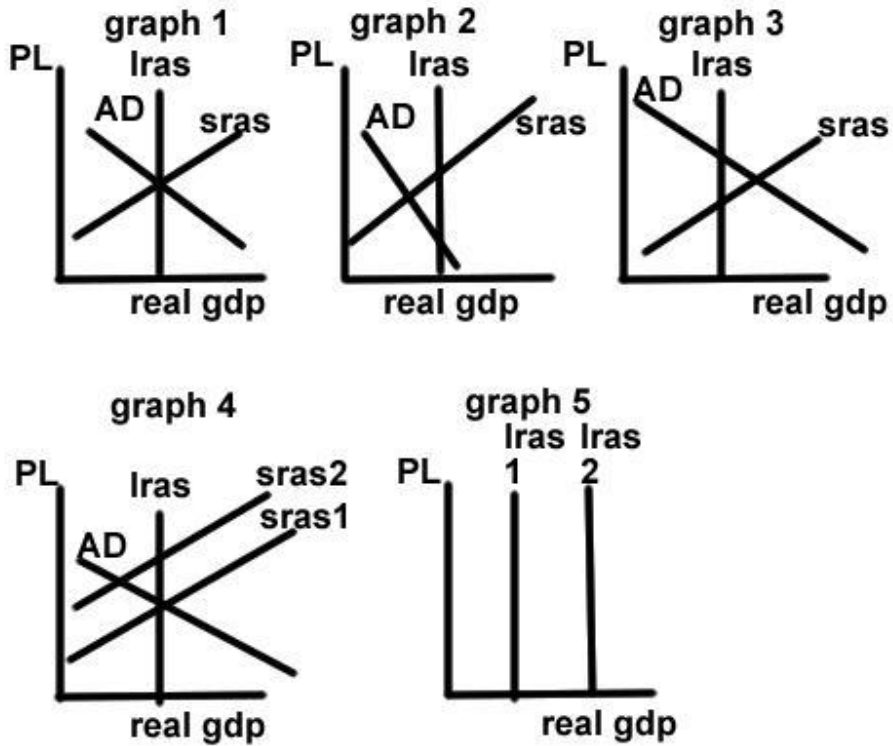


- ___ (A) graph 1
- ___ (B) graph 2
- ___ (C) graph 3
- ___ (D) graph 4
- ___ (E) graph 5

26. Which of the following statements is true for an economy that is in long-run equilibrium?

- ___ (A) There is no structural unemployment.
- ___ (B) There is no cyclical unemployment.
- ___ (C) There is no frictional unemployment.
- ___ (D) There is no unemployment.
- ___ (E) The labor participation rate is 100%

27. Refer to the ADAS graphs. Which graph best illustrates a noninflationary recession?



- (A) graph 1
- (B) graph 2
- (C) graph 3
- (D) graph 4
- (E) graph 5

28. If an economy is in a depression and real interest rates are at 0, an expansionary monetary policy will most likely

- (A) increase Investment.
- (B) be more effective than an expansionary fiscal policy.
- (C) decrease hoarding.
- (D) be less effective than an expansionary fiscal policy.
- (E) decrease excess reserves.

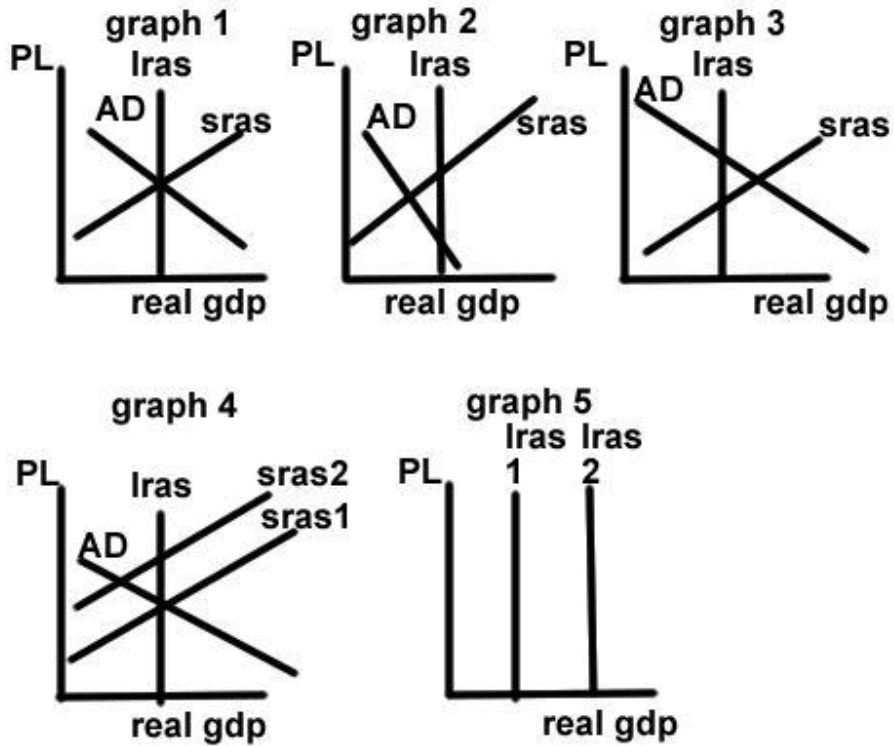
29. A fiscal policy that includes spending for education will

- (A) only increase aggregate demand and have no long-run affect.
- (B) only increase short-run aggregate supply.
- (C) decrease aggregate demand.
- (D) increase aggregate demand in the short-run but have no long-run effect.
- (E) increase aggregate demand in the short-run and increase long-run aggregate supply.

30. Assume that the economy expects a significant increase in the price level. Which of the following is least likely to occur?

- (A) The short-run supply curve will shift to the left.
- (B) Nominal interest rates will increase.
- (C) Aggregate Demand will shift to the left.
- (D) Inventories will change.
- (E) The long-run supply curve will not change.

31. Refer to the graphs. Which graph best illustrates the affect of a supply shock?

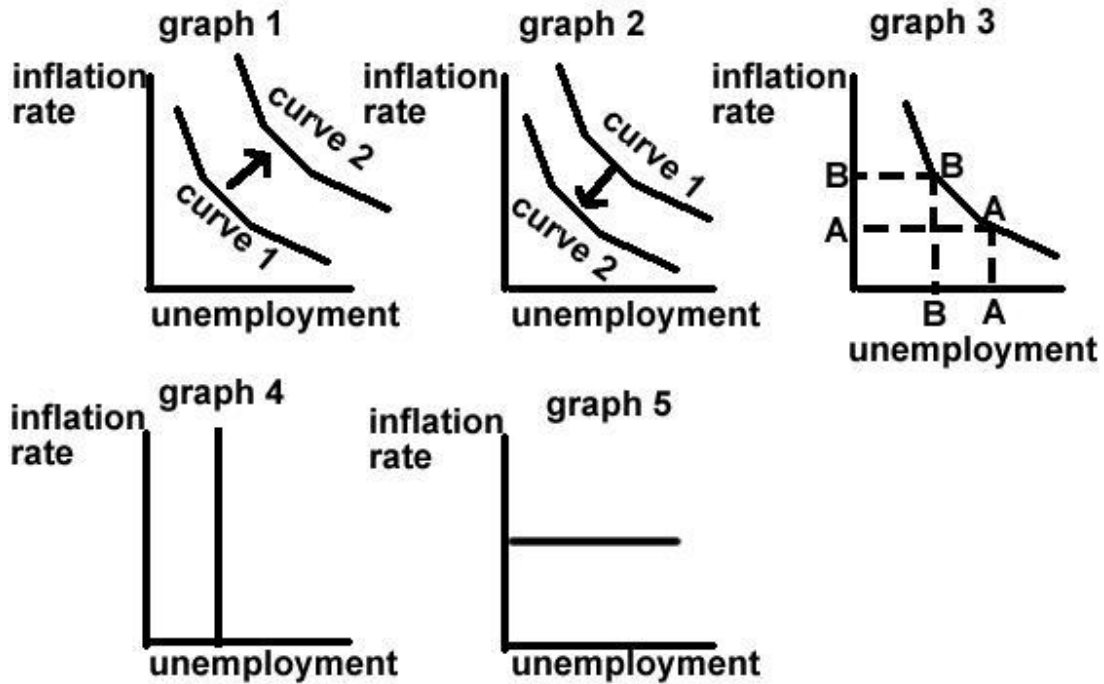


- ___ (A) graph 1
- ___ (B) graph 2
- ___ (C) graph 3
- ___ (D) graph 4
- ___ (E) graph 5

32. During a recession, a fiscal policy that includes spending on infrastructure can have an effect on

- ___ (A) short-run aggregate demand only.
- ___ (B) long-run aggregate supply only.
- ___ (C) short-run aggregate supply only.
- ___ (D) long-run aggregate demand.
- ___ (E) aggregate demand in the short-run and long-run aggregate supply.

33. Refer to the graphs. Which graph should you use to illustrate the effects of expected inflation on current inflation and unemployment?



- ___ (A) graph 1
- ___ (B) graph 2
- ___ (C) graph 3
- ___ (D) graph 4
- ___ (E) graph 5

34. Monetary Policy is conducted by the:

- ___ (A) Federal Government
- ___ (B) American Banking Association
- ___ (C) Senate
- ___ (D) Federal Reserve Bank
- ___ (E) Stock market

35. Refer to the table of Revenues and Expenses for the nation of Nirvana. What is the deficit in the Year 2?

(\$billions)

Government	Year 1	Year 2	Year 3	Year 4
Revenues	200	240	300	350
Expenses	220	270	310	330

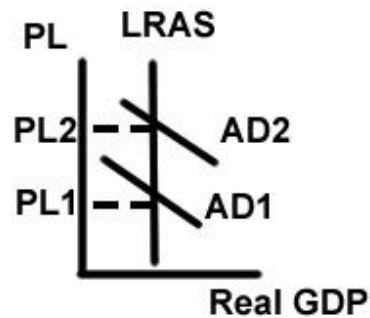
**Table of Revenues and Expenses for
the nation of Nirvana**

- (A) \$270 Billion
- (B) \$240 Billion
- (C) \$50 Billion
- (D) \$40 Billion
- (E) \$30 Billion

36. The actual spending multiplier is much smaller than the simple multiplier that is calculated by dividing 1 by 1 minus the marginal propensity to consume because of

- (A) the effect of new spending on imports
- (B) the effect of new spending on the price level
- (C) the effect of the income tax on new spending
- (D) the effect of new spending on the interest rates
- (E) all the above

37. Refer to the graph below. Which of the following policies would be most appropriate to use to combat the problem illustrated?

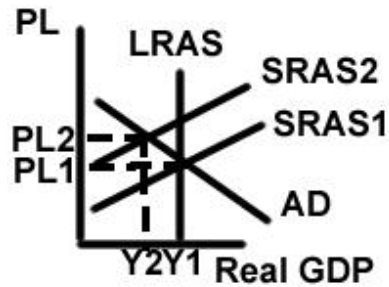


- (A) increase Government Purchases
- (B) decrease taxes
- (C) decrease the interest rates at the Discount Window
- (D) decrease the reserve requirement
- (E) Open Market Operation sale of bonds

38. Which of the following would most likely diminish the intended effect of an expansionary monetary policy by the FED?

- (A) A decrease in the tax rate
- (B) An increase in excess reserves by the banks
- (C) An increase in lending
- (D) An increase in borrowing
- (E) An increase in exports

39. Refer to the graph. Which of the following best explains what this graph illustrates?



- (A) demand-pull inflation
- (B) an increase in technology
- (C) an increase in employment
- (D) an increase in government purchases
- (E) cost-push inflation

40. The natural rate of unemployment is

- (A) constant
- (B) a rate where no unemployment exists
- (C) varies over time
- (D) is not affected by the labor participation rate
- (E) is an unemployment rate that tends to be inflationary