1. When taxes decrease, consumption
   a. increases, so aggregate demand shifts right.
   b. increases, so aggregate supply shifts right.
   c. decreases, so aggregate demand shifts left.
   d. decreases, so aggregate supply shifts left.

2. Consumption would decrease and aggregate demand would shift
   a. right if taxes increased.
   b. right if taxes decreased.
   c. left if taxes increased.
   d. left if taxes decreased.

3. Which of the following shifts aggregate demand to the right?
   a. an increase in the money supply
   b. an increase in net exports at every exchange rate
   c. an investment tax credit
   d. All of the above are correct.

4. Which of the following shifts aggregate demand to the right?
   a. a decrease in the money supply
   b. technological progress that increases the profitability of capital goods
   c. the repeal of an investment tax credit
   d. a decrease in the price level

5. Which of the following shifts aggregate demand to the left?
   a. an increase in the price level
   b. a decrease in the money supply
   c. an increase in net exports
   d. an investment tax credit

6. Which of the following shifts aggregate demand to the left?
   a. The price level rises.
   b. The price level falls.
   c. The Dinar depreciates.
   d. Stock prices fall.

8. When the government spends more, the initial effect is that
   a. aggregate demand shifts right.
   b. aggregate demand shifts left.
   c. aggregate supply shifts right.
   d. aggregate supply shifts left.

9. Aggregate demand shifts left when the government
   a. decreases taxes.
   b. cuts military expenditures.
   c. Both of the above are correct.
   d. None of the above is correct.

11. Aggregate demand would shift right if either
    a. the price level decreased, or government expenditures increased.
    b. the price level decreased, or the government instituted an investment tax credit.
    c. government expenditures
    d. All of the above are correct.

12. If countries that imported from the United States went into recession, we would expect that U.S. net exports would
a. rise, making aggregate demand shift right.
b. rise, making aggregate demand shift left.
c. fall, making aggregate demand shift right.
d. fall, making aggregate demand shift left.

13. If people want to save more for retirement
a. or if the government raises taxes, aggregate demand shifts right.
b. or if the government raises taxes, aggregate demand shifts left.
c. aggregate demand shifts right. If the government raises taxes, aggregate demand shifts left.
d. aggregate demand shifts left. If the government raises taxes, aggregate demand shifts right.

14. At the end of World War II many European countries were rebuilding and so were eager to buy capital goods and had rising incomes. We would expect that the rebuilding increased aggregate demand in
a. both the United States and Europe.
b. the United States but not Europe.
c. Europe, but not the United States.
d. neither the United States, nor Europe.

15. If the dollar appreciates, perhaps because of speculation or government policy, then U.S. net exports
a. increase and aggregate demand shifts right.
b. increase and aggregate demand shifts left.
c. decrease and aggregate demand shifts right.
d. decrease and aggregate demand shifts left.

16. If the dollar appreciates because of speculation or government policy
a. or other countries experience recessions, aggregate demand shifts right in the United States.
b. or other countries experience recessions, aggregate demand shifts left in the United States.
c. aggregate demand shifts right in the United States. If other countries experience recessions aggregate demand shifts left in the United States.
d. aggregate demand shifts left in the United States. If other countries experience recessions aggregate demand shifts right in the United States.

17. An increase in which of the following (assuming the increase was not due to a price level change) shifts aggregate demand to the right?
a. consumption
b. investment
c. government expenditures
d. All of the above are correct.

18. The aggregate supply curve is vertical in
a. the short and long run.
b. neither the short nor long run.
c. the long run, but not the short run.
d. the short run, but not the long run.

19. The aggregate supply curve is upward sloping rather than vertical in
a. the short and long run.
b. neither the short nor long run.
c. the long run, but not the short run.
d. the short run, but not the long run.

20. Which of the following does not determine the long-run level of real GDP?
a. the price level
b. the supply of labor
c. available natural resources
d. available technology

26. An increase in the expected price level shifts short-run aggregate supply to the
a. right, and an increase in the actual price level shifts short-run aggregate supply to the right.
b. right, and an increase in the actual price level does not shift short-run aggregate supply.
c. left, and an increase in the actual price level shifts short-run aggregate supply to the left.
d. left, and an increase in the actual price level does not shift short-run aggregate supply.

27. Which of the following shifts both short-run and long-run aggregate supply right?
   a. an increase in the actual price level
   b. an increase in the expected price level
   c. an increase in the capital stock
   d. None of the above is correct.

28. Which of the following shifts short-run, but not long-run aggregate supply right?
   a. a decrease in the price level
   b. a decrease in the expected price level
   c. a decrease in the capital stock
   d. an increase in the money supply.

29. Which of the following shifts short-run aggregate supply right?
   a. an increase in the minimum wage
   b. an increase in immigration from abroad
   c. an increase in the price of oil
   d. an increase in the actual price level.

Consider the exhibit below for the following eight questions.

![Price Level vs. Quantity of Output](image)

32. If the economy is at A and there is a fall in aggregate demand, in the short run the economy
   a. stays at A.
   b. moves to B.
   c. moves to C.
   d. moves to D.

33. If the economy starts at A and there is a fall in aggregate demand, the economy moves
   a. back to A in the long run.
   b. to B in the long run.
   c. to C in the long run.
   d. to D in the long run.

34. If the economy starts at A and moves to D, the economy moves
   a. to A in the long run.
   b. to B in the long run.
   c. to C in the long run.
   d. back to D in the long run.
35. The economy would be moving to long-run equilibrium if it started at
   a. A and moved to B.
   b. C and moved to B.
   c. D and moved to C.
   d. None of the above is correct.

36. An adverse shift in aggregate supply would move the economy from
   a. A to B.
   b. C to D.
   c. B to A.
   d. D to C.

37. In the short run, a favorable shift in aggregate supply would move the economy from
   a. A to B.
   b. B to C.
   c. C to D.
   d. D to A.

38. Which of the following statement about economic fluctuations is true?
   a. A recession is when output rises above the natural rate of output.
   b. A depression is a mild recession.
   c. Economics fluctuations have been terms the “business cycle” because the movements in output are regular and predictable.
   d. A variety of spending, income, and output measures can be used to measure economics fluctuations because most macroeconomic quantities tend to fluctuate together.
   e. none of the above.

39. According to the interest rate effect, aggregate demand slopes downward because
   a. lower prices increase the value of money holdings and consumer spending increases.
   b. lower prices decrease the value of money holdings and consumer spending decreases.
   c. lower prices reduce money holdings, increase lending, interest rates fall, and investment spending increases.
   d. lower prices increase money holdings, decrease lending, interest rates rise, and investment spending falls.

40. Which of the following would not cause a shift in the long-run aggregate supply curve?
   a. an increase in available labor
   b. an increase in available capital
   c. an increase in available technology
   d. an increase in price expectations
   e. All of the above shift the long-run aggregate supply curve.

41. Which of the following is not a reason why the aggregate-demand curve slopes downward?
   a. the wealth effect
   b. the interest-rate effect
   c. the classical dichotomy / money neutrality effects
   d. the exchange-rate effect
All of the above are reasons why the AD curve slopes downward.

42. In the model of AD and AS, the initial impact of an increase in consumer optimism is to
a. shift SRAS right.
b. shift SRAS left.
c. shift AD right.
d. shift AD left.
e. shift LRAS left.

43. Which of the following statements is true regarding the LRAS curve? The LRAS curve
a. shifts left when the natural rate of unemployment falls.
b. is vertical because an equal change in all nominal prices and wages leaves output unaffected.
c. is positively sloped because price expectations and wages tend to be fixed in the long run.
d. shift right when the government raises the minimum wage.

44. According to the wealth effect, AD slopes downward because
a. lower prices increase the value of money holdings and consumer spending increases.
b. lower prices decrease the value of money holdings and consumer spending decreases.
c. lower prices reduce money holdings, increase lending, interest rates fall, and investment spending increases.
d. lower prices increase money holdings, decrease lending, interest rates rise, and investment spending falls.

45. The natural rate of output is the amount of real GDP produced
a. when there is no unemployment
b. when the economy is at the natural rate of investment.
c. when the economy is at the natural rate of aggregate demand.
d. when the economy is at the natural rate of unemployment.

46. Stagflation occurs when the economy experiences
a. falling prices and falling output.
b. falling prices and rising output.
c. rising prices and rising output.
d. rising prices and falling output.

47. Which of the following events shifts the SRAS curve to the right?
a. an increase in government spending on military equipment
b. an increase in price expectations
c. a drop in oil prices
d. a decrease in the money supply
e. none of the above.