Soochow University, Winter Session I, 2021
ECON202 (Dr. Lei Pan)
Quiz 4 Solution
Due Friday, January 7 2022 at 5:00pm Taipei Time

Multiple Choice Questions [Total = 100 marks]

Choose ONE of the best answers for each of the following questions. Each question is worth 4 marks.

Question 1. [4 marks] Which of the following occurs when the price level rises?

A. Consumers feel wealthier, which encourages them to spend more.

B. People need to hold more money, so interest rates rise, making firms borrow and invest less.

C. The value of the dollar rises on foreign exchange markets.

D. The government responds to the higher prices by reducing its purchases.

Answer B

Question 2. [4 marks] Which of the following would cause the aggregate demand curve to shift to the right?

A. A new law that requires the government to cover the full cost of medicines for the elderly.

B. A wave of pessimism afflicts consumers.

C. Higher real interest rates.

D. The stock market crashes.

Answer A

Question 3. [4 marks] The long run aggregate supply will shift to the right whenever:

A. the price level increases.

B. factors of production (such as labor and capital) increase.

C. expenditures (such as consumption and net exports) increase.

D. the prices of inputs used to produce goods and services (such as wages and the price of oil) decrease.

Answer B

Question 4. [4 marks] Which of the following would cause the short run aggregate supply curve to shift to the left, but have no effect over the long run aggregate supply?

A. The amount of factors of production (such as labor and capital) increase.

B. The amount of factors of production (such as labor and capital) decrease.

C. Prices of inputs (such as wages or oil prices) increase.

D. Prices of inputs (such as wages or oil prices) decrease.

Answer C

Question 5. [4 marks] Suppose the economy is in long run equilibrium. If the stock market crashes in the short run, we can expect the price level to _______, and output to _______.

A. decrease, increase

B. decrease, decrease

C. increase, increase

D. increase, decrease

Answer B

Question 6. [4 marks] Which of the following statements about economic fluctuations is true?

A. A depression is a mild recession.

B. A variety of spending, income, and output measures can be used to measure economic fluctuations because most macroeconomic quantities tend to fluctuate together.

C. A recession is when output rises above the natural rate of output.

D. None of these answers

Answer B

Question 7. [4 marks] In the model of aggregate demand and aggregate supply, the initial impact of an increase in consumer optimism is to

A. shift the short-run aggregate supply curve to the left.

B. shift the aggregate demand curve to the right.

C. shift the short-run aggregate supply curve to the right.

D. shift the aggregate demand curve to the left.

Answer B

Question 8. [4 marks] Suppose the price level falls but suppliers only notice that the price of their particular product has fallen. Thinking there has been a fall in the relative price of their product, they cut back on production. This is a demonstration of the

A. misperceptions theory of the short-run aggregate supply curve.

B. classical dichotomy theory of the short-run aggregate supply curve.

C. sticky-price theory of the short-run aggregate supply curve.

D. sticky-wage theory of the short-run aggregate supply curve.

Answer A

Question 9. [4 marks] Suppose the economy is initially in long-run equilibrium. Then suppose there is a increase in military spending due to rising international tensions. According to the model of aggregate demand and aggregate supply, what happens to prices and output in the short run?

A. Prices fall; output rises.

B. Prices fall; output falls.

C. Prices rise; output falls.

D. Prices rise; output rises.

Answer D

Question 10. [4 marks] Suppose the economy is initially in long-run equilibrium. Then suppose there is a drought that destroys much of the wheat crop. According to the model of aggregate demand and aggregate supply, what happens to prices and output in the short run?

A. Prices rise; output falls.

B. Prices fall; output rises.

C. Prices rise; output rises.

D. Prices fall; output falls.

Answer A

Question 11. [4 marks] According to the model of aggregate supply and aggregate demand, in the long run, an increase in the money supply should cause

A. prices to rise and output to rise.

B. prices to fall and output to remain unchanged.

C. prices to fall and output to fall.

D. prices to rise and output to remain unchanged.

Answer D

Question 12. [4 marks] Policy makers are said to "accommodate" an adverse supply shock if they

A. fail to respond to the adverse supply shock and allow the economy to adjust on its own.

B. respond to the adverse supply shock by decreasing aggregate demand, which lowers prices.

C. respond to the adverse supply shock by decreasing short-run aggregate supply.

D. respond to the adverse supply shock by increasing aggregate demand, which further raises prices.

Answer D

Question 13. [4 marks] Stagflation occurs when the economy experiences

A. rising prices and rising output.

B. rising prices and falling output.

C. falling prices and falling output.

D. falling prices and rising output.

Answer B

Question 14. [4 marks] If the interest rate is above equilibrium in the Money Market, people will be holding _______ money than they want to, so they will want to deposit in interest bearing accounts _______ than before.

A. more, more

B. more, less

C. less, more

D. less, less

Answer A

Question 15. [4 marks] If the Fed wants to increase aggregate demand in the economy, the Fed will _______ its target for the Federal Funds Rate, and to meet that new target, the Fed will _______ the money supply.

A. increase, increase

B. increase, decrease

C. decrease, increase

D. decrease, decrease

Answer C

Question 16. [4 marks] Suppose the government increases its spending by $200 billion. How much will aggregate demand increase overall, if the marginal propensity to consume is 0.9 and if we assume there is no crowding out?

A. $200 billion

B. $180 billion

C. $2,000 billion ($2 trillion)

D. $1,800 billion ($1.8 trillion)

Answer C

Question 17. [4 marks] If the government cuts taxes by $100 billion, aggregate expenditure:

A. will increase by $100 billion right away.

B. might not change at all, if people perceive the tax cut to be temporary.

C. will increase more than if the government had instead increased spending by the $100 billion.

D. will decrease, as the government will be forced to cut spending to meet its lower tax revenue.

Answer B

Question 18. [4 marks] When an economy is in recession, household incomes tend to decrease, which results in households paying:

A. more taxes, thus helping stimulate the economy.

B. fewer taxes, further dampening the economy.

C. more taxes, further dampening the economy.

D. fewer taxes, thus helping stimulate the economy.

Answer D

Question 19. [4 marks] When the supply and demand for money are expressed in a graph with the interest rate on the vertical axis and the quantity of money on the horizontal axis, an increase in the price level

A. shifts money demand to the right and increases the interest rate.

B. shifts money demand to the left and increases the interest rate.

C. shifts money demand to the left and decreases the interest rate.

D. none of these answers

Answer A

Question 20. [4 marks] For the Eurozone countries, the most important source of the downward slope of the aggregate demand curve is probably

A. the wealth effect.

B. the exchange-rate effect.

C. the interest-rate effect.

D. none of these answers

Answer C

Question 21. [4 marks] The long-run effect of an increase in the money supply is to

A. increase the interest rate.

B. decrease the price level.

C. increase the price level.

D. decrease the interest rate.

Answer C

Question 22. [4 marks] If the marginal propensity to consume MPC is 0.75, the value of the multiplier is

A. 4.

B. 7.5

C. 0.75.

D. none of these answers.

Answer A

Question 23. [4 marks] When an increase in government purchases raises incomes, shifts money demand to the right, raises the interest rate, and lowers investment, we have seen a demonstration of

A. supply-side economics.

B. the crowding-out effect.

C. the multiplier effect.

D. none of these answers.

Answer B

Question 24. [4 marks] Which of the following statements regarding taxes is correct?

A. Most economists believe that, in the short run, the greatest impact of a change in taxes is on aggregate supply, not aggregate demand.

B. An increase in taxes shifts the aggregate demand curve to the right.

C. A decrease in taxes shifts the aggregate supply curve to the left.

D. A permanent change in taxes has a greater effect on aggregate demand than a temporary change in taxes.

Answer D

Question 25. [4 marks] Which of the following statements about stabilization policy is NOT true?

A. The US government has given control of interest rates, a key tool of activist stabilization policy, to the Fed.

B. Many economists prefer automatic stabilizers because they affect the economy with a shorter lag than activist stabilization policy.

C. Long lags enhance the ability of policy makers to fine-tune the economy.

D. When policy markers implement activist stabilization policies, there is a significant risk that their policies may actually have a destabilizing effect.

Answer C