

Week 12 Tutorial

ECON203: Macroeconomics 2

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Multiple Choice Questions

Question 1. An increase in wealth that doesn't affect labour supply would cause the IS curve to _____ and the FE line to _____.

- (a) shift down and to the left; be unchanged
- (b) shift down and to the left; shift left
- (c) shift up and to the right; be unchanged
- (d) shift up and to the right; shift left

Question 2. To reach general equilibrium, the price level adjusts to shift the _____ until it intersects with the _____.

- (a) IS curve; FE line and LM curve
- (b) FE line; LM and IS curves
- (c) LM curve; FE line and IS curve
- (d) ND curve; FE line and NS curve

Question 3. You have just read that Australia has suffered a drought, destroying its wheat crop for this year. The effect of this adverse supply shock on Australia would probably be

- (a) an increase in prices and an increase in real interest rates.
- (b) an increase in prices, an increase in nominal interest rates, but a decrease in real interest rates.
- (c) a decrease in prices and a decrease in real interest rates.
- (d) a decrease in prices, a decrease in nominal interest rates, but an increase in real interest rates.

Question 4. Which market adjusts the quickest in response to shocks to the economy?

- (a) The asset market
- (b) The labour market
- (c) The goods market
- (d) The asset, labour, and goods markets adjust at about the same speed to eliminate a disequilibrium in the macroeconomy.

Question 5. Keynesian economists think general equilibrium is not attained quickly because

- (a) the real interest rate adjusts slowly.
- (b) the level of output adjusts slowly.
- (c) the real wage rate adjusts slowly.
- (d) the price level adjusts slowly.

Question 6. Under an assumption of monetary neutrality, a change in the nominal money supply has

- (a) no effect on the price level.
- (b) a less than proportionate effect on the price level.
- (c) a proportionate effect on the price level.
- (d) a more than proportionate effect on the price level.

Question 7. Which of the following changes shifts the AD curve down and to the left?

- (a) A temporary increase in government purchases
- (b) A rise in the nominal money supply
- (c) A decrease in corporate taxes
- (d) A decrease in consumer confidence

Question 8. Which of the following changes shifts the $SRAS$ curve up?

- (a) An increase in the labour force
- (b) An increase in firms' costs
- (c) A decrease in government purchases
- (d) An increase in the money supply

Question 9. When the money supply rises by 10%, in the short run, output _____ and the price level _____.

- (a) rises; is unchanged
- (b) declines; falls
- (c) is unchanged; falls
- (d) declines; is unchanged

Question 10. When the money supply declines by 10%, in the long run, output _____ and the price level _____.

- (a) is unchanged; is unchanged
- (b) declines; falls
- (c) is unchanged; falls
- (d) declines; is unchanged

Problem Solving Questions

Question 11. Explain the differences between demand-pull inflation and cost-push inflation.

Question 12. Describe the short-run effects of each of the following shocks on the aggregate price level and on aggregate output.

- (a) The government sharply increases the minimum wage, raising the wages of many workers.
- (b) Solar energy firms launch a major program of investment spending.
- (c) Congress raises taxes and cuts spending.
- (d) Severe weather destroys crops around the world.

Question 13. Suppose that the interest rate has no effect on investment.

- (a) Can you think of a situation where this may happen?
- (b) What does this imply for the slope of the IS curve?
- (c) What does this imply for the slope of the LM curve?
- (d) What does this imply for the slope of the AD curve?