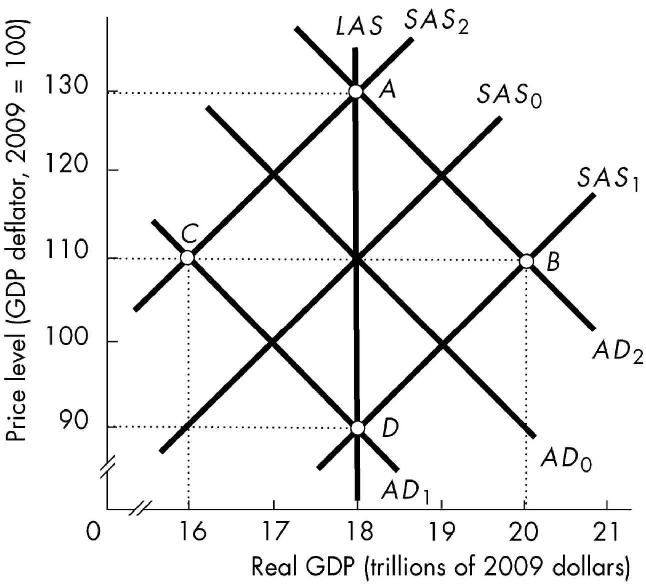
Choose the one alternative that best completes the statement or answers the question.

1) The Keynesian explanation of the business cycle is based on 1) ________
A) fluctuations in business confidence.
B) shifts in monetary policy undertaken by the Federal Reserve.
C) unstable inflationary expectations.
D) the inability of government policy–makers to predict the future course of the economy.



2) In the above figure, suppose that the economy has moved from point *A* to point *C*. According to the monetarist theory of the business cycle, what could have caused this movement? 2) ________
A) an increase in the growth rate of the quantity of money
B) an increase in the money wage rate
C) a decrease in the growth rate of the quantity of money
D) an increase in uncertainty

3) In the above figure, suppose that the economy has moved from point *D* to point *B*. According to the monetarist theory of the business cycle, what could have caused this movement? 3) ________
A) an increase in uncertainty about future sales and profits
B) a decrease in the money wage rate
C) an increase in the money wage rate
D) an increase in the growth rate of the quantity of money

4) The business cycle impulse in the new classical theory of the business cycle is 4) ________
A) fluctuations in investment coupled with rigid wages.
B) fluctuations in money growth with rigid wages.
C) unexpected changes in aggregate demand.
D) expected changes in aggregate demand.

5) According to the new classical theory, ________ policy changes have no effect on real GDP and according to the new Keynesian theory, ________ policy changes have an effect on real GDP. 5) ________
A) unexpected; expected
B) fiscal; fiscal
C) expected; expected
D) fiscal; monetary

6) Demand–pull inflation starts with 6) ________
A) an increase in aggregate demand.
B) an increase in short–run aggregate supply.
C) a decrease in aggregate demand.
D) a decrease in short–run aggregate supply.

7) When a cost–push inflation starts 7) ________
A) the price level rises and real GDP decreases.
B) real GDP rises faster than the quantity of money.
C) the price level falls and the money wages rises.
D) the short–run aggregate supply curve shifts rightward.

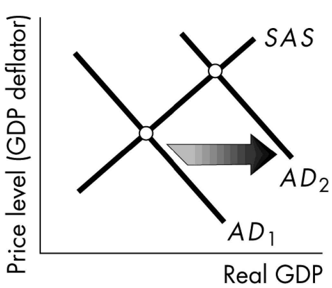


Figure A

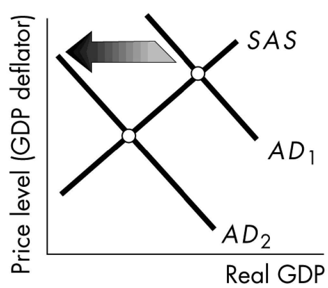


Figure B

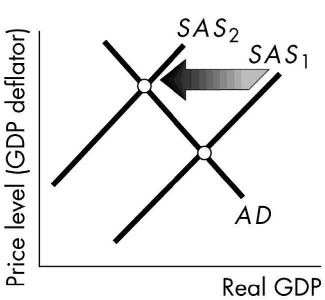


Figure C

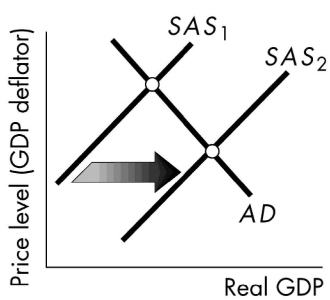


Figure D

8) In the above, which figure shows the start of a cost–push inflation? 8) ________
A) Figure A
B) Figure B
C) Figure C
D) Figure D

9) When the price level is rising and simultaneously real GDP is decreasing 9) ________
A) stagflation occurs.
B) the Fed has increased the discount rate.
C) there is an expansionary gap.
D) the natural unemployment rate increases.

10) Demand–pull inflation occurs when 10) ________
A) aggregate demand increases persistently.
B) oil prices increase substantially.
C) the government increases its expenditures.
D) aggregate supply and aggregate demand decrease persistently.

11) During a deflation, the inflation rate is 11) ________

A) positive and not changing.
B) negative.
C) positive and rising.
D) positive and falling.

12) Suppose the velocity of circulation increases by 2 percent and potential GDP grows by 4 percent. The trend inflation rate will equal zero if the quantity of money grows by 12) ________

A) 0 percent.
B) −2 percent.
C) 2 percent.
D) 4 percent.

13) Suppose the velocity of circulation increases by 3 percent and potential GDP grows by 4 percent. The trend inflation rate will equal zero if the quantity of money grows by 13) ________

A) 4 percent.
B) 3 percent.
C) 1 percent.
D) 0 percent.

14) A Phillips curve shows the relationship between the 14) ________

A) inflation rate and real GDP.
B) price level and real GDP.
C) inflation rate and the unemployment rate.
D) unemployment rate and real GDP.

15) Suppose that last year the economy of Suffera was experiencing an expected inflation rate of 8 percent and unemployment rate of 12 percent. An unexpected increase in the inflation rate would 15) ________

A) increase the unemployment rate.
B) increase the inflation rate but have no effect on the unemployment rate.
C) increase the inflation rate and decrease the unemployment rate.
D) None of the above answers is correct.

16) The long−run Phillips curve is 16) ________

A) the horizontal sum of the short−run Phillips curves.
B) vertical at potential GDP.
C) the vertical sum of the short−run Phillips curves.
D) vertical at the natural unemployment rate.