

These are some practice questions for CHAPTER 24. Each question should have a single answer. But be careful. There may be errors in the answer key!

86. The aggregate expenditure is _____ the price level.
- directly dependent on.
 - exactly proportional to.
 - inversely dependent on.
 - the same as
 - unaffected by.
87. When the domestic price level falls, other prices being constant,
- Canadian goods become more expensive relative to foreign goods.
 - the net export function shifts upward.
 - the *AE* curve shifts downward.
 - imports of foreign goods rise.
 - the net export function shifts downward.
88. Assume that aggregate expenditure is composed of consumption and investment ($C+I$). As the price level rises, the aggregate expenditure curve shifts
- down and the economy will move upward along the *AD* curve.
 - down and the economy will downward along the *AD* curve.
 - upward and the economy moves upward along the *AD* curve.
 - upward and the economy moves downward along the *AD* curve.
 - to the right as does the *AD* curve.
89. A fall in the amount of desired consumption, investment, government, or net export expenditure associated with each level of national income shifts the *AE* curve
- up and shifts the *AD* curve to the left.
 - up and shifts the *AD* curve to the right.
 - down and shifts the *AD* curve to left.
 - down and shifts the *AD* curve to the right.
 - down but no movement of the *AD* curve.
90. The simple multiplier is indicated by the
- horizontal distance between initial equilibrium and the new intersection of *AD* and *AS* in response to a change in autonomous expenditure.
 - downward movement along the *AD* curve in response to a change in autonomous expenditure.
 - rightward shift of the *AD* curve in response to a change in autonomous expenditure.
 - upward movement along the *AD* curve.
 - upward shift of the *AD* curve in response to a change in autonomous expenditure.

91. A decrease in the price level will cause
- an upward shift in the net export function.
 - an upward shift in the consumption function.
 - an upward shift in the AE curve.
 - all of the above.
 - none of the above.
92. If the economy is at a price level/real GDP combination that is to the left of the aggregate demand curve,
- actual output is less than aggregate desired expenditure.
 - consumption will tend to fall.
 - income will tend to fall.
 - inventories are likely to accumulate.
 - the economy is in a short-run equilibrium.
93. In Figure 24-1, at point Y_1 the
- corresponding point on the aggregate expenditure function is above the 45-degree line.
 - corresponding point on the aggregate expenditure curve is on the 45-degree line.
 - desired aggregate expenditure is less than national income.
 - economy national income is in short-run equilibrium.
 - output and the price level will tend to fall.

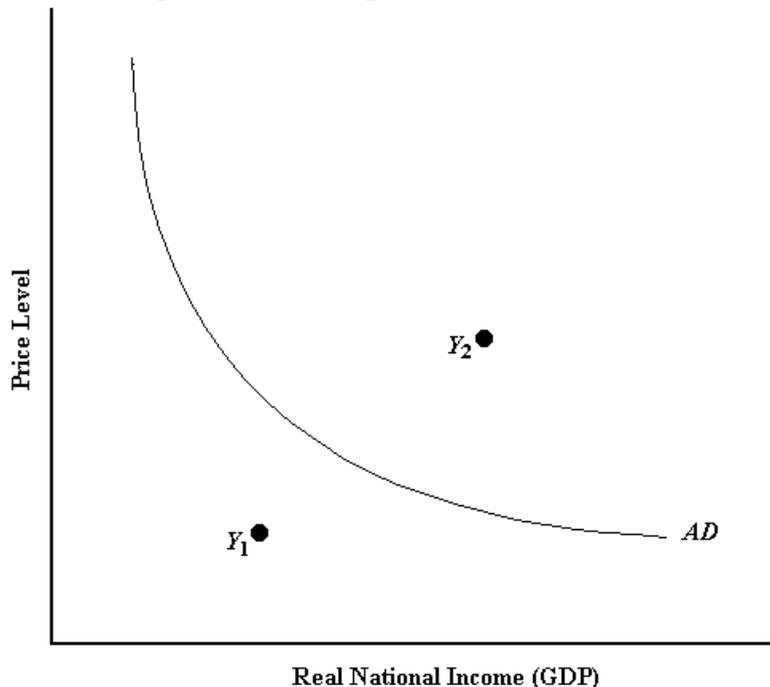


FIGURE 24-1

94. Aggregate supply refers to the
- decisions of firms to decrease inputs in order to produce outputs.
 - effects of increases in input prices on output.
 - potential output at each possible labour force.
 - supply of labour inputs in the economy.
 - total output of goods firms wish to produce at each price level.
95. The short-run aggregate supply (*SRAS*) curve shows the relationship between the price level and the total
- investment that firms wish to make, with input prices given.
 - investment that firms wish to make, as input prices vary.
 - output that firms wish to produce and sell, with input prices given.
 - output that firms wish to produce and sell, as input prices vary.
 - wealth accumulated by households, with national income given.
96. Suppose that a government report indicates that recent high-school graduates have better computing skills than did graduates in the past, resulting in an increase in labour productivity. This will
- shift the *AD* curve to the left.
 - shift the *SRAS* curve to the right.
 - shift the *SRAS* curve to the left.
 - shift the *AD* curve to the right.
 - not shift any curve in the short run.
97. The *SRAS* curve slopes upward because with a given wage rate, a higher price level will:
- increase *AD* so that producers are encouraged to increase output.
 - increase *AD* so that producers are encouraged to decrease output.
 - decrease *AD* so that producers are encouraged to decrease output.
 - decrease real wages and this induces business to hire workers.
 - increase real wages and this induces business to hire more workers.
98. Suppose due to major technological innovation the price of non-labour inputs dramatically decreases. This will
- shift the *AD* curve to the left.
 - shift the *SRAS* curve to the left.
 - shift the *AD* curve to the right.
 - shift the *SRAS* curve to the right.
 - not shift any curve in the short run.

99. Which one of the following statements is true?
- a. When the price level is less than its equilibrium value, expenditure behaviour is consistent with a level of national income less than the desired output of firms.
 - b. When the price level is above the equilibrium value expenditure behaviour is consistent with a level of national income greater than the desired output of firms.
 - c. Only at the combination of national income and price level given by the intersection of the *SRAS* and *AD* curves are spending behaviour and supply behaviour consistent.
 - d. To create equilibrium at the prevailing price level, firms need not wish to produce the prevailing level of national income.
 - e. To create equilibrium at the prevailing price level, firms need not wish to profit maximize.
100. If, at a particular price level, aggregate demand is greater than aggregate supply then
- a. a shortage exists and the price level will decline.
 - b. a shortage exists and the price level will rise.
 - c. a surplus exists and the price level will decline.
 - d. the aggregate demand curve will shift to the left, re-establishing an equilibrium.
 - e. the aggregate supply curve will shift to the right, re-establishing an equilibrium.
 - f.
101. The multiplier effect of a shift in *AD* when *SRAS* is positively sloped is
- a. less than the simple multiplier.
 - b. more than the simple multiplier.
 - c. the same as the simple multiplier.
 - d. zero.
 - e. could be any of the above depending upon the value of the slope of the *SRAS* curve.
102. A rise in an input price like the price of oil would be expected to result in a new macroeconomic equilibrium in which the price level
- a. and real GDP are higher than in initial equilibrium.
 - b. and real GDP are lower than in initial equilibrium.
 - c. is lower and real GDP higher than in the initial equilibrium.
 - d. is higher and real GDP lower than in the initial equilibrium.
 - e. none of the above.

103. Which of the following is an example of an aggregate demand shock?
- a. because of free trade, Canadian businesses decide to increase their investment expenditures.
 - b. a severe drought lasts for six months, destroying agricultural and forestry production.
 - c. a government report indicates a substantial increase in the health of the average Canadian worker resulting in less sick days taken.
 - d. an improvement in the computer literacy skill of workers increases labour productivity and reduces real wage cost.
 - e. OPEC (the Organization of Petroleum Exporting Nations) announces a substantial increase in oil prices.
104. Which of the following is a cause of a supply shock?
- a. an outbreak of war among oil-exporting countries
 - b. a general labour strike across the country
 - c. bad weather cripples telecommunications to New York City for one month
 - d. all of the above
 - e. none of the above
105. If the economy is at a short-run equilibrium where *SRAS* is vertical, and then aggregate demand decreases, we expect the aggregate expenditure curve to shift to a
- a. higher level and stay there.
 - b. higher level, but then shift part of the way down to its original position.
 - c. higher level but then return to its original position.
 - d. lower level and stay there.
 - e. lower level, but then return to its original position.

Answer Key

- 86. c
- 87. b
- 88. a
- 89. c
- 90. c
- 91. d
- 92. a
- 93. a
- 94. e
- 95. c
- 96. b
- 97. d
- 98. d
- 99. c
- 100. b
- 101. a
- 102. d
- 103. a
- 104. d
- 105. e