9.1 The FE Line

1) The FE line shows the level of output at which the _______ market is in equilibrium.
   A) Goods
   B) Asset
   C) Labor
   D) Money
   Answer: C
   Diff: 1
   Topic: Section 9.1
   Question Status: Previous Edition

3) The FE line is vertical because the level of output at full employment doesn’t depend on the
   A) real wage rate.
   B) level of employment.
   C) marginal product of labor.
   D) real interest rate.
   Answer: D
   Diff: 1
   Topic: Section 9.1
   Question Status: Previous Edition

4) Which of the following would shift the FE line to the right?
   A) An adverse supply shock
   B) An increase in labor supply
   C) A decrease in the capital stock
   D) An increase in the future marginal productivity of capital
   Answer: B
   Diff: 1
   Topic: Section 9.1
   Question Status: Previous Edition
6) An increase in the money supply would cause the FE line to
A) shift to the right.
B) shift to the left.
C) remain unchanged.
D) remain unchanged if Ricardian equivalence holds; otherwise, shift to the right.
Answer: C
Diff: 1
Topic: Section 9.1
Question Status: Previous Edition

8) An adverse supply shock would cause the FE line to
A) shift to the right.
B) shift to the left.
C) remain unchanged.
D) remain unchanged if the shock is temporary; shift to the right if the shock is permanent.
Answer: B
Diff: 1
Topic: Section 9.1
Question Status: Previous Edition

9.2 The IS Curve

1) The IS curve shows the combinations of output and the real interest rate for which
A) the goods market is in equilibrium.
B) the labor market is in equilibrium.
C) the financial asset market is in equilibrium.
D) an increase in output will cause the market-clearing interest rate to be bid up.
Answer: A
Diff: 1
Topic: Section 9.2
Question Status: Previous Edition

3) Any change that reduces desired saving relative to desired investment (for a given level of output) causes the real interest rate to ________ and shifts the IS curve ________.
A) increase; down and to the left
B) increase; up and to the right
C) decrease; down and to the left
D) decrease; up and to the right
Answer: B
Diff: 2
Topic: Section 9.2
Question Status: Previous Edition

5) A decrease in the effective tax rate on capital would cause the IS curve to
A) shift up and to the right.
B) shift down and to the left.
C) remain unchanged.
D) remain unchanged if taxes are fully deductible from income; otherwise, shift up and to the right.
Answer: A
Diff: 1
6) An increase in labor supply would cause the IS curve to
   A) shift up and to the right.
   B) shift down and to the left.
   C) remain unchanged.
   D) shift up and to the right only if people face borrowing constraints.
Answer: C  Diff: 1

9) A decrease in wealth would cause the IS curve to
   A) shift up and to the right.
   B) shift down and to the left.
   C) remain unchanged.
   D) shift up and to the right only if people face borrowing constraints.
Answer: B  Diff: 1

10) An increase in the expected future marginal product of capital would cause the IS curve to
    A) shift up and to the right.
    B) shift down and to the left.
    C) remain unchanged.
    D) remain unchanged if firms face borrowing constraints; otherwise, shift down and to the left.
Answer: A  Diff: 1

11) The IS curve would unambiguously shift up and to the right if there were
    A) an increase in both government purchases and corporate taxes.
    B) an increase in both government purchases and the expected future marginal product of capital.
    C) an increase in the expected future marginal product of capital and a decrease in expected future output.
    D) a decrease in both corporate taxes and the expected future marginal product of capital.
Answer: B  Diff: 2

9.3 The LM Curve

2) A decline in the price of a bond causes the yield of the bond to
   A) rise.
   B) fall.
   C) remain unchanged.
   D) rise if it's a short-term bond, but fall if it's a long-term bond.
Answer: A
4) Looking only at the asset market, an increase in output would cause
   A) the LM curve to shift down and to the right.
   B) the LM curve to shift up and to the left.
   C) an increase in the real interest rate along the LM curve.
   D) a decrease in the real interest rate along the LM curve.
   Answer: C

6) A change that increases real money demand relative to the real money supply causes
   A) the LM curve to shift down and to the right.
   B) the LM curve to shift up and to the left.
   C) the IS curve to shift down and to the left.
   D) the IS curve to shift up and to the right.
   Answer: B

8) You have just read that the Federal Reserve has increased the money supply to avoid a recession. For a given price level, you would expect the LM curve to
   A) shift up and to the left as the real money supply falls.
   B) shift up and to the left as the real money supply rises.
   C) shift down and to the right as the real money supply falls.
   D) shift down and to the right as the real money supply rises.
   Answer: D

10) The probable effect of introducing an increased number of automatic teller machines is to
    A) increase money demand, shifting the LM curve up and to the left.
    B) increase money demand, shifting the LM curve down and to the right.
    C) decrease money demand, shifting the LM curve up and to the left.
    D) decrease money demand, shifting the LM curve down and to the right.
    Answer: D

9.4 General Equilibrium

1) An increase in wealth that doesn’t affect labor supply would cause the IS curve to _______ and the FE line to _______.
   A) shift down and to the left; be unchanged
3) When all markets in the economy are simultaneously in equilibrium, we say
   A) markets are complete.
   B) markets are perfect.
   C) there is disequilibrium.
   D) there is general equilibrium.
   Answer: D
   Diff: 1
   Topic: Section 9.4
   Question Status: Previous Edition

5) What adjusts to restore general equilibrium after a shock to the economy?
   A) The $LM$ curve
   B) The $IS$ curve
   C) The $FE$ line
   D) The labor supply curve
   Answer: A
   Diff: 1
   Topic: Section 9.4
   Question Status: Previous Edition

6) The $IS$–$LM$ model predicts that a temporary beneficial supply shock
   A) increases output, national saving, and investment, but not the real interest rate.
   B) increases output, national saving, and the real interest rate, but not investment.
   C) increases the real interest rate, investment, and output, but not national saving.
   D) increases output, national saving, investment, and the real interest rate.
   Answer: A
   Diff: 2
   Topic: Section 9.4
   Question Status: Previous Edition

11) After a temporary beneficial supply shock hits the economy, general equilibrium is restored by
    A) a shift down and to the left of the $IS$ curve.
    B) a shift to the left of the $FE$ line.
    C) a shift up and to the left of the $LM$ curve.
    D) a shift down and to the right of the $LM$ curve.
    Answer: D
    Diff: 1
    Topic: Section 9.4
    Question Status: Previous Edition

12) An adverse supply shock that is permanent shifts which curve in addition to the curves shifted by one that is
temporarily?
  A) The LM curve
  B) The IS curve
  C) The FE line
  D) The labor demand curve
Answer: B
Diff: 1
Topic: Section 9.4
Question Status: Previous Edition

15) An increase in expected inflation causes the real interest rate to _______ and output to _______ in the short run, before prices adjust to restore equilibrium.
   A) rise; rise
   B) rise; fall
   C) fall; rise
   D) fall; fall
Answer: C
Diff: 2
Topic: Section 9.4
Question Status: Previous Edition

16) Suppose the intersection of the IS and LM curves is to the left of the FE line. A decrease in the price level would most likely eliminate a disequilibrium among the asset, labor, and goods markets by
   A) shifting the LM curve down and to the right.
   B) shifting the IS curve up and to the right.
   C) shifting the IS curve down and to the left.
   D) shifting the FE curve to the left.
Answer: A
Diff: 1
Topic: Section 9.4
Question Status: Previous Edition

17) Suppose the intersection of the IS and LM curves is to the left of the FE line. What would most likely eliminate a disequilibrium among the asset, labor, and goods markets?
   A) A rise in the price level, shifting the LM curve up and to the left
   B) A fall in the price level, shifting the LM curve down and to the right
   C) A rise in the price level, shifting the IS curve up and to the right
   D) A fall in the price level, shifting the IS curve down and to the left
Answer: B
Diff: 2
Topic: Section 9.4
Question Status: Previous Edition

20) An increase in taxes (when Ricardian equivalence doesn’t hold) causes the real interest rate to _______ and the price level to _______ in general equilibrium.
   A) rise; rise
   B) rise; fall
   C) fall; rise
   D) fall; fall
Answer: D
Diff: 2

6
9.5 Price Adjustment and the Attainment of General Equilibrium

3) A decrease in money supply causes the real interest rate to _______ and the price level to _______ in general equilibrium.
   A) rise; rise
   B) remain unchanged; fall
   C) remain unchanged; rise
   D) fall; fall
   Answer: B
   Diff: 2

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.
   Answer: D
   Diff: 1

9) 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.
   Answer: C
   Diff: 1

9.6 Aggregate Demand and Aggregate Supply

2) The aggregate demand curve shows the combinations of output and the price level that put the economy on
   A) the FE line and the IS curve.
   B) the FE line, the IS curve, and the LM curve.
   C) the IS curve.
   D) the IS curve and the LM curve.
   Answer: D
   Diff: 1

5) Which of the following changes shifts the AD curve up and to the right?
   A) A rise in the nominal money supply
   B) An increase in income taxes
9) Which of the following changes shifts the SRAS curve up?
   A) An increase in the labor force
   B) An increase in firms' costs
   C) A decrease in government purchases
   D) An increase in the money supply
Answer: B

12) 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
Answer: A