Principles of Macroeconomics
Homework Assignment 8
Answer Sheet

Name ______________________ **Class Day/Time ___________________**

Questions of this homework are in the next few pages. Please find the answer of the questions and fill in the blanks below. Turn in this answer sheet on the due date in class. Keep the remaining pages to study.

1. ________	**11. ________**
2. ________	**12. ________**
3. ________	**13. ________**
4. ________	**14. ________**
5. ________	**15. ________**
6. ________	**16. ________**
7. ________	**17. ________**
8. ________	**18. ________**
9. ________	**19. ________**
10. ________	**20. ________**

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Multiple Choice

____ 1. The model of aggregate demand and aggregate supply explains the relationship between
   a. the price and quantity of a particular good.
   b. unemployment and output.
   c. wages and employment.
   d. real GDP and the price level.

____ 2. The variables on the vertical and horizontal axes of the aggregate demand and supply graph are
   a. the price level and real GDP.
   b. real GDP and employment.
   c. Employment and the inflation rate.
   d. the value of money and the price level.

____ 3. If there is a 6% GDP gap below the potential GDP, according to Okun's Law,
   a. the unemployment rate would be 2%.
   b. the unemployment rate would be 8%.
   c. the unemployment rate would be 5%.
   d. the unemployment rate would be 11%.

____ 4. Which of the following is included in the aggregate demand for goods and services?
   a. consumption
   b. investment
   c. net exports
   d. government spending
   e. all of the above

____ 5. Which of the following is *not* included in aggregate demand?
   a. purchases of stocks and bonds
   b. purchases of services such as visits to the doctor
   c. purchases of capital goods such as equipment in a factory
   d. purchases by foreigners of consumer goods produced in the United States

____ 6. Wealth effect, interest rate effect, and international trade effect are all explanations for
   a. the slope of short-run aggregate supply.
   b. the slope of long-run aggregate supply.
   c. the slope of the aggregate demand curve.
   d. everything that makes the aggregate demand curve shift.

____ 7. Ceteris Paribus, as the price level in the U.S. falls,
   a. American goods become more expensive relative to foreign goods, and thus net export drops.
   b. American goods become cheaper relative to foreign goods, thus net export rises.
   c. American goods become more expensive relative to foreign goods, thus net export rise.
   d. American goods become cheaper relative to foreign goods, thus net export drops.

____ 8. The basic distinctions between the Classical Theory and Keynesian Theory include
   a. aggregate supply is vertical in Classical Theory while aggregate supply is relatively flat in Keynesian Theory.
   b. Classical Economists believe government intervention is unnecessary while Keynesian economists believe government intervention is necessary.
   c. aggregate demand is vertical in Classical Theory while aggregate demand is relatively flat in Keynesian Theory.
   d. All of the above are correct.
   e. Only a and b are correct.

____ 9. Other things being equal, an increase in the price level makes consumers feel
   a. less wealthy, so the quantity demanded of goods and services falls.
   b. less wealthy, so the quantity demanded of goods and services rises.
   c. more wealthy, so the quantity demanded of goods and services rises.
   d. more wealthy, so the quantity demanded of goods and services falls.

____ 10. The founder of Macroeconomics is
   a. Adam Smith.
   b. John Maynard Keynes.
   c. David Ricardo.
   d. Carl Marx.

____ 11. Potential output is
   a. the maximum output an economy can produced when it has used all of its resources efficiently.
   b. also called full employment output.
   c. a real GDP level where the unemployment rate is around 5%.
   d. All of the above are correct.

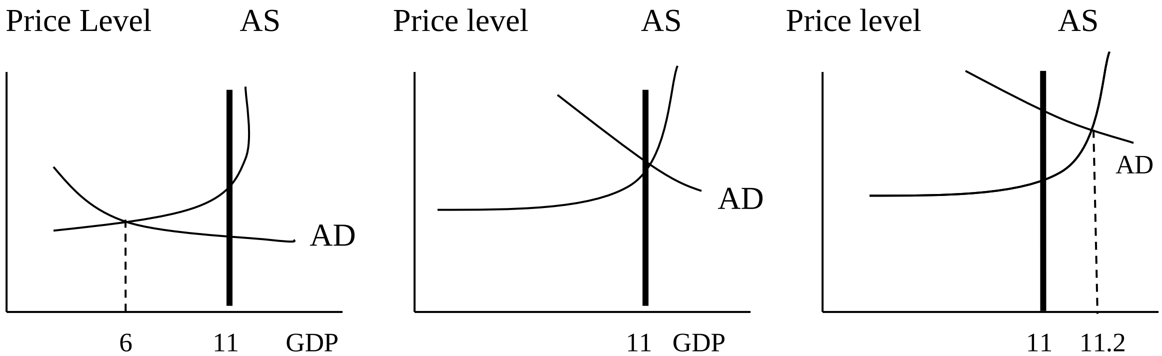
____ 12. According to Keynes, the aggregate supply curve is slightly upward sloping, i.e. relatively flat, when
   a. the unemployment rate is low.
   b. the inflation rate is high.
   c. the unemployment rate is very high.
   d. all the resources are used efficiently.

____ 13. Which of the following is *not* a determinant of the long-run aggregate supply?
   a. price level
   b. supply of labor
   c. available natural resources
   d. state of technology

____ 14. Which of the following would cause a decrease in aggregate demand?
   a. Firms are expecting a deeper recession, and thus reduce investment.
   b. Households become wealthier during a stock market boom, and thus spend more.
   c. Government spends more to stimulate an economy.
   d. All of the above are correct.

____ 15. The long-run aggregate supply curve shifts left if
   a. the capital stock increases.
   b. more people join the labor force.
   c. there is a severe earthquake.
   d. None of the above is correct.

Figure 8-1. All real GDP are in trillions of dollars.



(a) **(b)** **(c)**

_____ 16. Refer to Figure 8-1. Which of the following statements is correct?

a. Panel (a) represents overheating economy; Panel (b) is full employment; Panel (c) is recession.
b. Panel (a) represents full employment; Panel (b) is recession; Panel (c) is overheating.
c. Panel (a) represents recession; Panel (b) is overheating; Panel (c) is full employment.
d. Panel (a) represents recession; Panel (b) is full employment; Panel (c) is overheating.

_____ 17. Refer to Figure 8-1. The GDP gap

a. in Panel (a) is less than zero and the unemployment rate is higher than 5%.
b. in Panel (b) is less than zero and the unemployment rate is less than 5%.
c. in Panel (c) is less than zero and the unemployment rate is less than 5%.
d. in Panel (c) is less than zero and the unemployment rate is greater than 5%.

_____ 18. Refer to Figure 8-1. In Panel (a) the economy

a. produces $11 trillion GDP while it can produce $11 trillion.
b. produces $6 trillion GDP while it can produce $11 trillion.
c. produces $6 trillion GDP while it can produce $6 trillion.
d. produces $11 trillion GDP while it can produce $6 trillion.

_____ 19. Refer to Figure 8-1. In Panel (a) the GDP gap equals

a. - $5 trillion.
b. - $11 trillion.
c. - $6 trillion.
d. $0 trillion.

_____ 20. Refer to Figure 8-1. In Panel (c) the GDP gap

a. is negative.
b. equals to zero.
c. is positive.
d. equals to – 0.2.