Econ 105 Study Questions #2: The AD–AS model and Money and Banking

From the Kennedy Text:
Chapter 5 pp 95–96 Media Ex. #3, #5, #7
Chapter 6 pp 118 N1, N2, N3
Chapter 8 pp140–41 Media Ex. #2, #3, #7, #11,
Chapter 8 pp 142 N1, N2, N3, N4

Use Your Lecture Notes, Website Handouts and Textbook to Answer the following:

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

1) If the short run *AS* curve is horizontal, the multiplier is 1) ________
A) infinitely large.
B) equal to the simple multiplier.
C) smaller than the simple multiplier.
D) is zero.
E) negative.

2) The short run *AS* curve slopes upward because with a given wage rate, a higher price level will: 2) ________
A) decrease *AD* so that producers are encouraged to decrease output.
B) decrease real wages and this induces business to hire workers.
C) increase real wages and this induces business to hire more workers.
D) increase *AD* so that producers are encouraged to increase output.
E) increase *AD* so that producers are encouraged to decrease output.

3) If the short run *AS* is very steep (almost vertical) then an increase in aggregate demand, will result in 3) ________
A) an equal increase the price level and in real GDP.
B) an increase in the price level with almost no change in real GDP.
C) almost no change in prices but a large increase in real GDP.
D) a decrease in the price level and a very small decrease in real GDP.
E) a decrease in real GDP and a very small decrease in the price level.

4) A decrease in the price level will cause 4) ________
A) a shift to the left in the position of the AD curve.
B) a downward shift in the consumption function.
C) an upward shift in the *AE* curve.
D) a shift to the right in the position of the AD curve.
E) a downward shift in the net export function.

5) A change in the price level changes equilibrium national income 5) ________
A) by a lesser amount in either direction.
B) in the same direction.
C) by the same amount in the opposite direction.
D) by the same amount in the same direction.
E) in the opposite direction.

6) If the short run *AS* curve tends to be relatively horizontal at low levels of real GDP because 6) ________

A) firms are faced with unused capacity, and thus can increase output without increasing costs.

B) consumer demand for most goods tends to be price–elastic when output is low.

C) consumer demand for most goods tends to be price–inelastic when output is low.

D) profits are normally high in this section of the *AS* curve, so firms are willing to expand output.

E) output is constant.

7) When a shift in aggregate demand occurs, the effect will be divided between a change in output and a change in price level. How the effect is divided depends on the 7) ________

A) slope of the *AD* curve.

B) amount of inflation in the economy.

C) position of the *AE* curve.

D) size of the multiplier.

E) slope of the short run *AS* curve.

8) In ranges where the short run *AS* curve is very steeply sloped, a change in *AD* leads to a relatively 8) ________

A) small change in price level and a corresponding change in real GDP.

B) large change in price level and a small change in real GDP.

C) large change in price level and a corresponding change in real GDP.

D) small change in price level and a large change in real GDP.

E) insignificant change in either price or output.

9) Over the intermediate (middle) range of the short run *AS* curve, a rightward shift of the *AD* curve will result in 9) ________

A) a decrease in output and an increase in prices.

B) an increase in prices but not output.

C) a decrease in both output and prices.

D) an increase in output but not prices.

E) an increase in both output and prices.

10) Since long run aggregate supply is vertical, then, in the long run, real GDP 10) ________

A) is determined by aggregate demand and the price level is determined by the short run aggregate supply.

B) and the price level are determined by aggregate demand.

C) is determined by long run aggregate supply and the price level by aggregate demand.

D) and the price level are determined by long run aggregate supply.

E) is determined by aggregate demand and the price level by long run aggregate supply curve.

11) The study of cyclical fluctuations assumes, for simplicity, that there are no changes in the position of the 11) _______

A) long run Y^* curve and short run *AS* curves.

B) short run *AS* curve.

C) *AD* and short run *AS* curves.

D) intersection of the *AD*, short run *AS* and long run Y^* curves.

E) long run Y^* curve.

12) An inflationary output gap occurs when 12) _______

A) potential GDP exceeds actual GDP.

B) equilibrium national income is below potential national income.

C) nominal GDP exceeds real GDP.

D) demand for labour services is very low.

E) actual GDP exceeds potential GDP.

13) The long run aggregate supply, Y^* can shift rightward 13) _______

A) only as net investment adds to the existing capital stock the economy can employ.

B) until it reaches the vertical segment of the *short run AS* curve, which is where the economy produces at maximum capacity.

C) continuously, with increases in available inputs and/or improvements in technology.

D) only in sudden spurts, with the unpredictable timing and extent of technological improvements.

E) only when the population increases.

14) A leftward shift in potential GDP, with aggregate demand constant, will 14) _______

A) increase real output and decrease the price level.

B) decrease real output and decrease the price level.

C) leave real output unaffected and increase the price level.

D) decrease real output and increase the price level.

E) decrease real output and leave the price level unchanged.

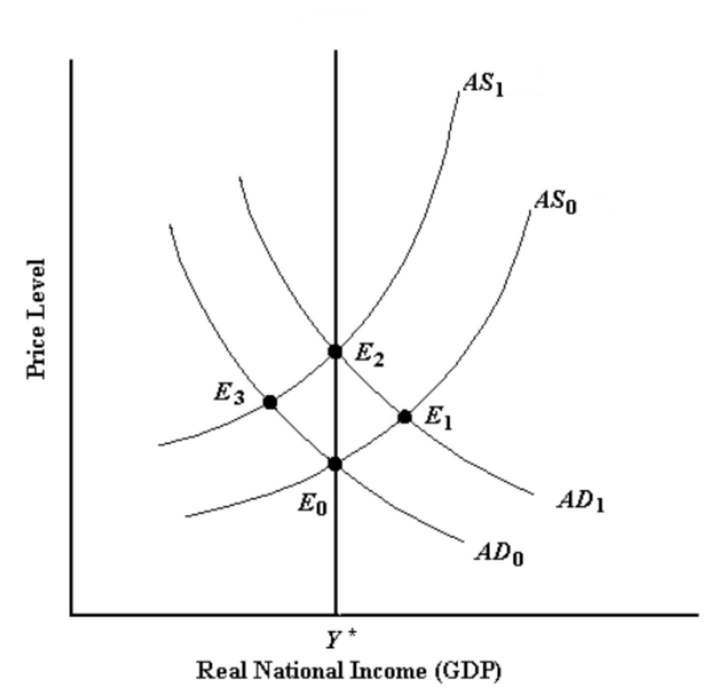

FIGURE 24–3

15) In Figure 24–3, the economy cannot be in equilibrium at E_1, in the long run, because the 15) _______

A) AD_1 curve will shift back to the original position due to a fall in current consumption.

B) AS will shift to the right due to a decrease in the price level.

C) AS will shift to the left due to an increase in wages.

D) AS will shift to the left due to an increase in the price level.

E) AD_1 curve will shift back to the original position AD_0 due to an increase in the price level.

16) If Canadian households and businesses refused to accept Canadian dollars in exchange for goods and services, the value of the dollar would 16) _______

A) depreciate in value.

B) rise since less would be in circulation.

C) stay constant since its value is determined by the Government of Canada.

D) stay constant since the value does not depend on people's acceptability of it.

E) stay constant since its value is determined by the Bank of Canada.

17) When you are estimating your monthly expenses, you are using money as 17) _______

A) a unit of account.

B) a medium of exchange.

C) a standard unit of deferred payment.

D) a store of value.

E) all of the above

18) Following a new deposit of \$10 000, and assuming a desired reserve ratio of 2 percent, a single commercial bank in a banking system could create — 18) ________

A) \$2 000 of new deposits.
B) \$8 000 of new deposits.
C) \$9 800 of additional loans.
D) \$98 000 of additional loans.
E) \$100 000 of additional loans.

19) The Bank of Canada purchases \$5 million worth of government securities from an investment dealer with a cheque drawn on the Bank of Canada. The dealer deposits this cheque at a Canadian Chartered Bank. The desired reserve ratio of all banks is 25 percent. Assume all chartered banks are operating with no excess reserves and there is no cash drain. The Chartered Bank is immediately in a position to expand its loans by — 19) ________

A) \$1.25 million.
B) \$20 million.
C) \$5 million.
D) \$15 million.
E) \$3.75 million.

20) When wage rates rise faster than the increase in labour productivity the — 20) ________

A) the *AD* curve shifts left.
B) *AS* curve shifts downward.
C) *AS* curve shifts upward.
D) Y^* curve shifts right.
E) Y^* schedule shifts left.

21) The short-run aggregate supply (*AS*) curve shows the relationship between the price level and the total — 21) ________

A) output that firms wish to produce and sell, with input prices given.
B) wealth accumulated by households, with national income given.
C) investment that firms wish to make, as input prices vary.
D) output that firms wish to produce and sell, as input prices vary.
E) investment that firms wish to make, with input prices given.

22) A rise in the price level ________ the real value of money holdings, while a fall in the price level ________ the real value of money holdings. — 22) ________

A) does not affect; lowers
B) lowers; does not affect
C) raises; lowers
D) does not affect; raises
E) lowers; raises

23) The long run aggregate supply, Y^* relates price level to real GDP 23) ______

A) when wages are in adjustment but prices are unstable.

B) when technology is allowed to change.

C) when national income is at less than potential income.

D) in the short run.

E) after input costs have fully adjusted to eliminate output gaps.

24) In a recession, progressive income taxes act as an automatic stabilizer by ________ the marginal propensity to spend, and thereby causing the multiplier to ________ . 24) ______

A) decreasing; equal one

B) decreasing; decreasing

C) increasing; decreasing

D) decreasing; increasing

E) increasing; increasing

25) A rise in the price level will 25) ______

A) increase the purchasing power of money.

B) increase the value of money.

C) stabilize the value of money.

D) has no effect on the value of money

E) decrease the purchasing power of money.

26) Demand shocks have a small effect on real GDP and large effect on the price level 26) ______

A) on the intermediate (mid–portion) portion of the short run *AS* curve.

B) the flatter the short run *AS* curve.

C) on the downward–sloping portion of the short run *AS* curve.

D) the steeper the short run *AS* curve.

E) if the AD curve is flat.

27) A leftward shift of longrun aggregate supply curve (potential GDP) could be caused by 27) ______

A) a decrease in interest rates.

B) a fall in the price level.

C) an improvement in the productivity of labour.

D) an increase in current national savings.

E) a decrease in the available resources.

28) The term 'fiat money' refers to money 28) ______

A) issued by the Italian Car Dealerships Association (ACDA) and accepted only by them for purchase of Italian cars imported to Canada.

B) because the government declares that it is money and that it is legal tender.

C) in which the metal content is worth less than the face value of the coin.

D) that is fully convertible into gold at a predetermined fixed ratio.

E) in which the metal content is worth more than the face value of the coin.

29) The reasons why the aggregate demand curve slopes downward is that 29) _______

A) when the price level falls firms must compete more when output increases.

B) increases in the price level cause consumers to substitute foreign goods for domestic goods.

C) when the price level falls consumers increase their savings rate.

D) aggregate expenditure increases as the price level rises.

E) increased production results in lower production costs.