ECON 2630 – Practice Problems 11

1. A decrease in the price level
   a. decreases investment spending, thereby shifting the AD curve
   b. increases investment spending, thereby shifting the AD curve
   c. does not shift the AD curve
   d. increases autonomous consumption spending, thereby shifting the AD curve

2. If consumers enjoy an increase in wealth due to stock market gains, which of the following combinations of events will mostly likely take place?
   a. a downward shift of the aggregate expenditure line and a rightward shift of the AD curve
   b. a downward shift of the aggregate expenditure line and a rightward shift of the AD curve
   c. an upward shift of the aggregate expenditure line and a leftward shift of the AD curve
   d. an upward shift of the aggregate expenditure line and a rightward shift of the AD curve

3. Which of the following would shift the aggregate demand curve to the left?
   a. increases in government purchases, investment spending, autonomous consumption, taxes, or the money supply
   b. decreases in government purchases, investment spending, autonomous consumption, or the money supply
   c. increases in government purchases, investment spending, autonomous consumption, or the money supply
   d. decreases in government purchases, investment spending, autonomous consumption, taxes, or an increase in the money supply

4. If the Fed conducts an open market sale of bonds, which of the following will happen?
   a. The interest rate will decrease, the aggregate expenditure line will shift upward, and the aggregate demand curve will shift rightward.
   b. The interest rate will decrease, the aggregate expenditure line will shift downward, and the aggregate demand curve will shift rightward.
   c. The interest rate will increase, the aggregate expenditure line will shift downward, and the aggregate demand curve will shift leftward.
   d. The interest rate will decrease, the aggregate expenditure line will shift upward, and the aggregate demand curve will shift leftward.

5. If the unit cost of output for a car is $8000 and the price is $10,000, what is the firms' markup over cost?
   a. 125 percent
   b. 25 percent
   c. 80 percent
   d. 0 percent

6. Why does a change in GDP affect unit costs and the price level?
   a. As GDP increases, productivity increases.
   b. As GDP increases the price of non-labor inputs increases and the nominal wage tends to increase.
   c. As GDP decreases, there are efficient gains
   d. As GDP increases, economies of scale allow for lower unit costs.

7. Which of the following would shift the AS curve downward?
   a. a decrease in the price level
   b. a decrease in world oil prices
   c. an increase in world oil prices
   d. a natural disaster that raises unit costs for all firms

8. Which of the following is *not* an example of a demand shock?
   a. a reduction in government spending
   b. an increase in income tax rates
   c. a change in oil prices.
   d. a money supply increase.

9. If autonomous consumption decreases, which of the following would occur in the short run?
   a. a decrease in GDP, a decrease in the price level, a decrease in money demand, and a decrease in the interest rate
   b. an increase in GDP, an increase in the price level, an increase in money demand, and an increase in the interest rate
   c. a decrease in GDP, an increase in the price level, an increase in money demand, and an increase in the interest rate
   d. an increase in GDP, a decrease in the price level, a decrease in money demand, and an increase in the interest rate

10. If there is a positive demand shock, which of the following would represent the most likely short and long-run outcomes? (Assume the economy was initially at full employment.)
    a. In the short run, real GDP and the price level would increase; in the long run, real GDP would return to its original level while the price level would rise even further.
    b. In the short run, real GDP and the price level would increase; in the long run, real GDP and the price level would return to their original levels.
    c. In the short run, real GDP would increase and the price level would decrease; in the long run, real GDP would return to its original level while the price level would rise even further.
    d. In the short run, real GDP and the price level would decrease; in the long run, real GDP would return to its original level while the price level would rise even further.