

As you read chapter 14, look for the answers to these multiple choice questions.

1. Stagflation refers to the simultaneous existence of: A. high inflation and high unemployment. B. high inflation and low unemployment. C. falling inflation and rising unemployment. D. low inflation and high unemployment. E. low inflation and low unemployment.
2. In the full employment model, shifts in aggregate demand:
 - A. lead to changes in output, because there is excess capacity in the economy and prices and wages are assumed fixed.
 - B. lead to changes in both output and the price level because there is excess capacity in the economy and prices and wages are assumed flexible.
 - C. have no effect on either output or the price level, because the economy is already at full capacity and prices and wages are assumed fixed.
 - D. lead to changes in the price level, because the economy is already at full capacity and prices and wages are assumed flexible.
 - E. have no effect on either output or the price level, because there are offsetting effects on aggregate supply.
3. If the nominal rate of interest is 10 percent and the rate of inflation is 20 percent, the real rate of interest is:
 - A. 10 percent. B. minus 10 percent. C. 30 percent. D. minus 30 percent. E. indeterminate.
4. When the economy is at full employment, the short-run aggregate:
 - A. supply curve is vertical. B. demand curve is vertical. C. supply curve is upward sloping. D. demand curve is horizontal. E. supply curve is horizontal.
5. Linking increases in wage levels to increases in price is termed: A. accommodation. B. indexation. C. protection. D. insurance. E. immunization.
6. Demand-pull inflation is normally initiated: A. by a leftward shift in the aggregate demand curve. B. by a rightward shift in the aggregate demand curve. C. without a shift in either the aggregate demand or aggregate supply curve. D. by a leftward shift in the aggregate supply curve. E. by a rightward shift in the aggregate supply curve.
7. Which of the following groups is most likely to lose from inflation? A. taxpayers B. debtors C. workers on indexed wage contracts D. borrowers E. owners of property
8. When the value of money falls because of inflation, the effect is termed: A. redistribution. B. a lenders' tax. C. an inflation tax. D. a borrowers' tax. E. an inflation penalty.
9. Increases in the money supply in response to increases in the price level represent an example of monetary policy ____ inflation. A. causing B. initiating C. curbing D. restricting E. accommodating
10. The Phillips curve plots the relationship between: A. unemployment and wage inflation. B. unemployment and output. C. aggregate demand and aggregate supply. D. wage inflation and output. E. employment and wage inflation.
11. Adjustment (or menu) costs are: A. increases in the price of a meal in a restaurant. B. increases in the wages of restaurant workers. C. the costs of changing prices. D. unexpected increases in the price of food. E. the costs of buying a representative menu of goods.
12. Another name for the non-accelerating-inflation rate of unemployment is the: A. stable rate of unemployment. B. natural rate of unemployment. C. expectations augmented rate of unemployment. D. equilibrium rate of unemployment. E. Phillips rate of unemployment.
13. Unemployment that occurs as the result of a transition from one job to another is called: A. seasonal unemployment. B. frictional unemployment. C. voluntary unemployment. D. structural unemployment. E. cyclical unemployment.

14. Increases in the rate of inflation tend to lead to: A. greater stability in relative prices. B. greater variability in relative prices. C. constant relative prices. D. an increase in all relative prices. E. a decrease in all relative prices.
15. Inflation is much more of a problem when it is: A. not a surprise. B. less than 100 percent per year. C. unanticipated. D. more than 100 percent per year. E. anticipated.
16. If expectations are formed rationally: A. there is no short-run expectations augmented Phillips curve. B. the long-run Phillips curve is applicable relatively quickly. C. there is no long-run Phillips curve. D. it is impossible to reduce unemployment below the natural rate. E. the long-run Phillips curve is applicable only relatively slowly.
17. If an asset pays a nominal return before tax of 12 percent and inflation is 9 percent, any tax rate in excess of ____ will result in a real return after tax that is negative. A. 75 percent B. 25 percent C. 12 percent D. 9 percent E. 3 percent
18. The long-run aggregate: A. supply curve is vertical. B. demand curve is vertical. C. supply curve is upward sloping. D. demand curve is horizontal. E. supply curve is horizontal.
19. In the unemployment model, shifts in aggregate demand: A. lead to changes in both output and the price level because there is excess capacity in the economy and prices and wages are assumed flexible. B. have no effect on either output or the price level, because the economy is already at full capacity and prices and wages are assumed fixed. C. lead to changes in the price level, because the economy is already at full capacity and prices and wages are assumed flexible. D. have no effect on either output or the price level, because there are offsetting effects on aggregate supply. E. lead to changes in output, because there is excess capacity in the economy and prices and wages are assumed fixed.
20. Inflation that is normally caused by a shift in the aggregate demand curve is termed: A. demand-pull inflation. B. non-accelerating inflation. C. unexpected inflation. D. expected inflation. E. cost-push inflation.
21. Leftward shifts of the aggregate supply curve normally initiate ____ while rightward shifts of aggregate demand normally initiate _____. A. demand-push inflation; cost-pull inflation B. cost-push inflation; demand-pull inflation C. increases in price; decreases in price D. demand-pull inflation; cost-push inflation E. cost-pull inflation; demand-push inflation
22. At low levels of output the aggregate supply curve will be almost ____, and at high levels of output the aggregate supply curve will be _____. A. perfectly inelastic; perfectly elastic B. perfectly inelastic; perfectly inelastic C. perfectly elastic; perfectly inelastic D. perfectly elastic; perfectly elastic E. perfectly inelastic; horizontal
23. The rate of unemployment at which the rate of inflation will be constant is called the: A. Phillips rate of unemployment. B. stable rate of unemployment. C. expectations augmented rate of unemployment. D. equilibrium rate of unemployment. E. natural rate of unemployment.
24. Inflation that is normally caused by a shift in the aggregate demand curve is termed ____ inflation; inflation that is normally caused by a shift in the aggregate supply curve is termed ____ inflation. A. cost-push; non-accelerating B. non-accelerating; demand-pull C. demand-pull; cost-push D. non-accelerating; cost-push E. cost-push; demand-pull
25. A Phillips curve drawn to take account of what individuals expect about future inflation is called the ____ Phillips curve. A. expected B. expectations augmented C. future D. expectations adjusted E. anticipated