University of Lethbridge — Department of Economics
ECON 1012 — Introduction to Microeconomics
Instructor: Michael G. Lanyi

Chapter 28 — Canadian UE, Infl & B. C.

1) Which of the following would cause the aggregate demand curve to keep shifting rightward year after year?
A) A one–time tax cut.
B) A one–time increase in government expenditures on goods and services.
C) A persistent increase in the quantity of money.
D) Inflation.
E) Excess wage demands.

Topic: Inflation Cycles

2) At full employment an increase in the quantity of money (*ceteris paribus*) can create a
A) cost–push inflation, as can an increase in government expenditure.
B) demand–pull inflation, as can an increase in government expenditure.
C) demand–pull and a cost–push inflation, as can an increase in government expenditure.
D) cost–push inflation, but an increase in government expenditure cannot.
E) demand–pull inflation, but an increase in government expenditure cannot.

Topic: Inflation Cycles

3) Demand–pull inflation occurs when
A) aggregate demand increases.
B) unemployment is above the natural rate.
C) input costs rise.
D) people incorrectly forecast inflation.
E) aggregate supply decreases.

Topic: Inflation Cycles

4) Inflation resulting from an increase in aggregate demand is called
A) cost–push inflation.
B) political inflation.
C) demand–pull inflation.
D) anticipated inflation.
E) unanticipated inflation.

Topic: Inflation Cycles

5) Which one of the following can create a demand–pull inflation?
A) A cut in the interest rate.
B) A decrease in government expenditure on goods and services.
C) A decrease in investment as a result of a decrease in expected future profits.
D) Higher wages negotiated by unions.
E) A sharp increase in the price of oil.

Topic: Inflation Cycles

6) Stagflation occurs when the economy experiences both

A) falling inflation and increasing real GDP.
B) falling inflation and decreasing real GDP.
C) rising inflation and increasing real GDP.
D) low exports and low imports.
E) rising inflation and decreasing real GDP.

Topic: Inflation Cycles

7) Suppose the economy is in long–run equilibrium when the price of oil rises. Which one of the following is not a short–run effect of this situation?

A) an increase in the price level
B) an increase in unemployment
C) a decrease in real GDP
D) an increase in real GDP above long–run real GDP
E) a decrease in consumer spending

Topic: Inflation Cycles

8) Suppose OPEC unexpectedly collapses, which leads to a fall in the price of oil. As a result, the price level

A) falls, and real GDP increases.
B) falls, and real GDP decreases.
C) rises, and real GDP decreases.
D) rises, and real GDP remains the same.
E) rises, and real GDP increases.

Topic: Inflation Cycles

9) An increase in the price level due to an increase in the price of oil

A) leads to an increase in the money wage rate.
B) creates stagflation in the short–run and *will* trigger a cost–push inflation.
C) increases output above potential GDP.
D) leads to a decrease in the money wage rate.
E) creates stagflation in the short–run and *may* trigger off a cost–push inflation.

Topic: Inflation Cycles

10) Cost–push inflation can result from an initial

A) increase in the money wage rate.
B) increase in government expenditure.
C) increase in personal income taxes.
D) decrease in personal income taxes.
E) increase in transfer payments.

Topic: Inflation Cycles

11) Stagflation can result from

A) a rightward shift of the demand curve.
B) a rightward shift of the long–run aggregate supply curve.
C) a rightward shift of the short–run aggregate supply curve.
D) a leftward shift of the demand curve.
E) a leftward shift of the short–run aggregate supply curve.

Topic: Inflation Cycles

12) A cost-price inflation spiral results if the policy response to stagflation is to keep
   A) doing nothing.
   B) decreasing aggregate demand.
   C) decreasing short-run aggregate supply.
   D) increasing short-run aggregate supply.
   E) increasing aggregate demand.

Topic: Inflation Cycles

Use the figure below to answer the following question.

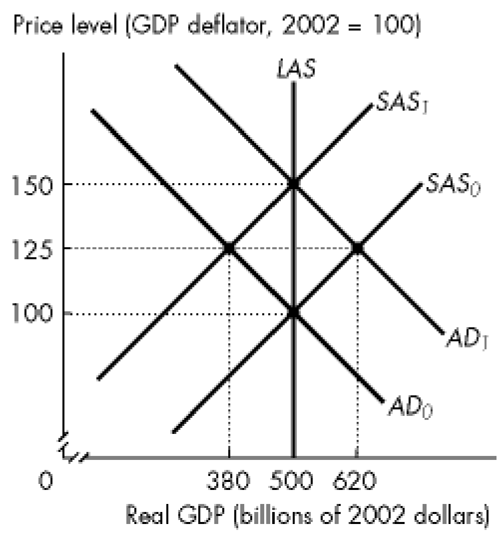

Figure 28.1.1

13) Refer to Figure 28.1.1. The figure illustrates an economy initially in equilibrium at the intersection of the SAS_0 curve and the AD_0 curve. Which of the following shifts the short-run aggregate supply curve from SAS_0 to $SAS1$?
   A) An increase in the demand for money.
   B) An increase in the price level.
   C) A decrease in the money wage rate.
   D) An increase in the price of oil.
   E) An increase in the marginal product of labour.

Topic: Inflation Cycles

Use the figure below to answer the following questions.

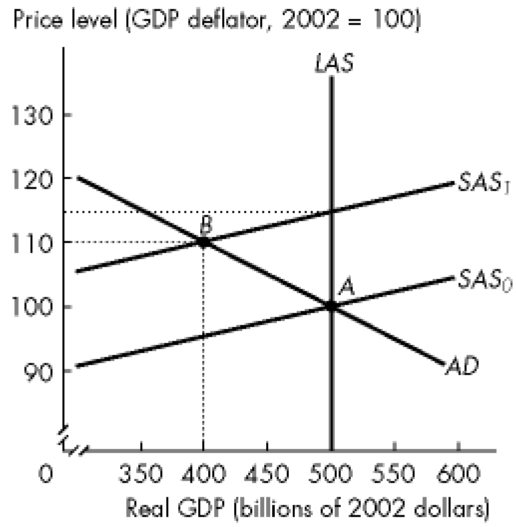

Figure 28.1.2

14) Refer to Figure 28.1.2. The economy is in long–run equilibrium. If the short–run aggregate supply curve shifts leftward from SAS_0 to SAS_1, *ceteris paribus*, then people expected

A) the price level to rise to 110.
B) a 15 percent inflation.
C) the real wage rate to fall by 10 percent.
D) a real GDP decrease of $50 billion.
E) a 10 percent inflation.

Topic: Inflation Cycles

15) Refer to Figure 28.1.2. The economy is in long–run equilibrium. If the short–run aggregate supply curve shifts leftward from SAS_0 to SAS_1, *ceteris paribus*, then the actual inflation rate

A) is less than the expected inflation rate.
B) is the same as the expected inflation rate.
C) is greater than the expected inflation rate.
D) depends on what happens to wage settlements.
E) cannot be determined without more information.

Topic: Inflation Cycles

16) Refer to Figure 28.1.2. The vertical distance between SAS_0 and SAS_1 represents the

A) expected increase in real GDP.
B) expected decrease in the real wage rate.
C) actual decrease in real GDP.
D) actual inflation rate.
E) expected inflation rate.

Topic: Inflation Cycles

17) Refer to Figure 28.1.2. If the short–run aggregate supply curve does not shift, and remains at SAS_0, then the expected inflation rate is

A) zero.
B) 10 percent.
C) –10 percent.
D) 5 percent.
E) 15 percent.

Topic: Inflation Cycles

18) Refer to Figure 28.1.2. If SAS shifts from SAS_0 to SAS_N, then

A) inflation is expected to be 10 percent.
B) inflation will be 10 percent.
C) a recession will occur.
D) unemployment will fall.
E) B and C.

Topic: Inflation Cycles

19) Refer to Figure 28.1.2. Consider the market for labour as the short–run aggregate supply curve shifts leftward from SAS_0 to SAS_1. This shift could have been the result of an agreement between workers and employers for a

A) 15 percent increase in the money wage rate.
B) 10 percent increase in the money wage rate.
C) 10 percent increase in the real wage rate.
D) 15 percent decrease in the money wage rate.
E) 10 percent decrease in the money wage rate.

Topic: Inflation Cycles

20) Refer to Figure 28.1.2. Complete the following sentence. The figure illustrates

A) demand–pull inflation.
B) cost–push inflation.
C) a cost–push inflation spiral.
D) a one time rise in the price level.
E) A and C are both correct.

Topic: Inflation Cycles

21) A forecast based on all the relevant information is

A) a future expectation.
B) an adaptive expectation.
C) a rational expectation.
D) a perfect forecast.
E) always a correct expectation.

Topic: Inflation Cycles

Use the figure below to answer the following questions.

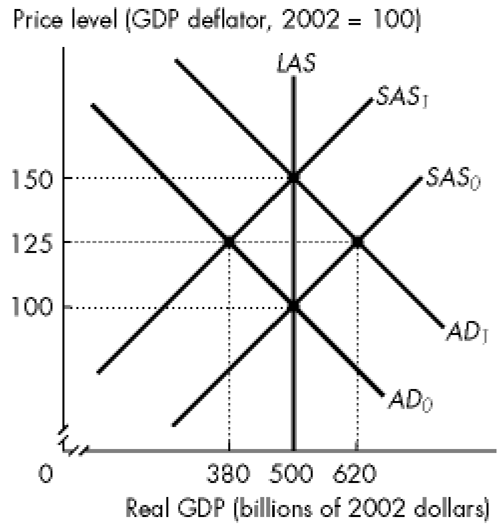

Figure 28.1.3

22) Refer to Figure 28.1.3. Assume that the figure illustrates an economy initially in equilibrium at the intersection of the SAS_0 curve and the AD_0 curve. If the aggregate demand curve is correctly expected to shift to AD_1, new equilibrium real GDP is ________ and the new equilibrium price level is ________.

A) $500 billion; 150
B) $380 billion; 125
C) $500 billion; 100
D) $500 billion; 125
E) $620 billion; 125

Topic: Inflation Cycles

23) Refer to Figure 28.1.3. Assume that the figure illustrates an economy initially in equilibrium at the intersection of the SAS_0 curve and the AD_0 curve. If the aggregate demand curve is expected to shift to AD_1 but remains at AD_0, the new equilibrium real GDP is ________ and the new equilibrium price level is ________.

A) $500 billion; 100
B) $380 billion; 100
C) $380 billion; 125
D) $500 billion; 150
E) $620 billion; 125

Topic: Inflation Cycles

24) Refer to Figure 28.1.3. Assume that the figure illustrates an economy initially in equilibrium at the intersection of the SAS_0 curve and the AD_0 curve. If the aggregate demand curve is expected to remain at AD_0 but shifts to AD_1, the new equilibrium real GDP is ________ and the new equilibrium price level is ________.

A) $500 billion; 150
B) $500 billion; 100
C) $500 billion; 125
D) $380 billion; 125
E) $620 billion; 125

Topic: Inflation Cycles

Use the figure below to answer the following question.

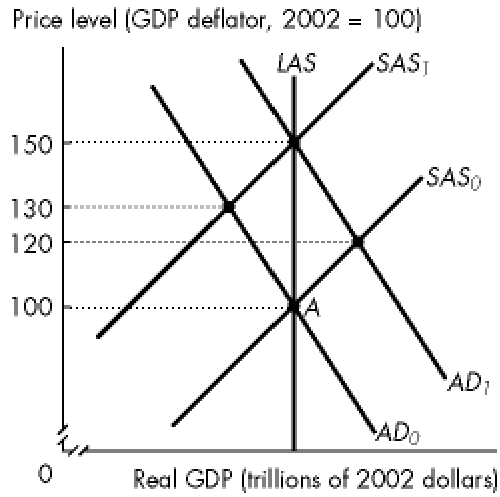

Figure 28.1.4

25) Refer to Figure 28.1.4. The figure illustrates an economy initially in equilibrium at point *A*. If the quantity of money is expected to increase by 50 percent, what is the rational expectation of the price level?
A) 120
B) 130
C) 150
D) 100
E) We cannot tell without more information on wage negotiations.

Topic: Inflation Cycles

26) A correctly anticipated increase in the quantity of money, in an economy with an unchanging long–run aggregate supply, will result in
A) no change in the price level and an increase in real GDP.
B) a rise in the price level and an increase in real GDP.
C) a proportional rise in the price level and no change in real GDP.
D) a rise in the price level and a decrease in real GDP.
E) no change in the price level and no change in real GDP.

Topic: Inflation Cycles

27) Suppose the quantity of money is expected to remain unchanged but it actually increases. The price level
A) falls and real GDP increases.
B) rises and real GDP stays the same.
C) falls and real GDP decreases.
D) rises and real GDP decreases.
E) rises and real GDP increases.

Topic: Inflation Cycles

28) An economy is in long–run equilibrium when aggregate supply unexpectedly decreases. Then real GDP (*ceteris paribus)* will be
A) below potential GDP.
B) equal to potential GDP.
C) either above or equal to potential GDP depending on the position of the aggregate demand curve.
D) either above, below, or equal to potential GDP depending on the position of the aggregate demand curve.
E) above potential GDP.

Topic: Inflation Cycles

29) A correctly anticipated increase in the quantity of money
A) does not change the price level but decreases real GDP.
B) increases the price level with no change in real GDP.
C) does not change the price level but increases real GDP.
D) increases the price level and increases real GDP.
E) does not change the price level or real GDP.
Topic: Inflation Cycles

30) A forecast that is based on all the relevant information available is
A) useful only in the prediction of demand-pull inflation.
B) called a rational expectation.
C) useful only in the prediction of cost-push inflation.
D) usually accurate.
E) usually no better than a random guess given that the future bears many uncertainties.
Topic: Inflation Cycles

Use the figure below to answer the following question.

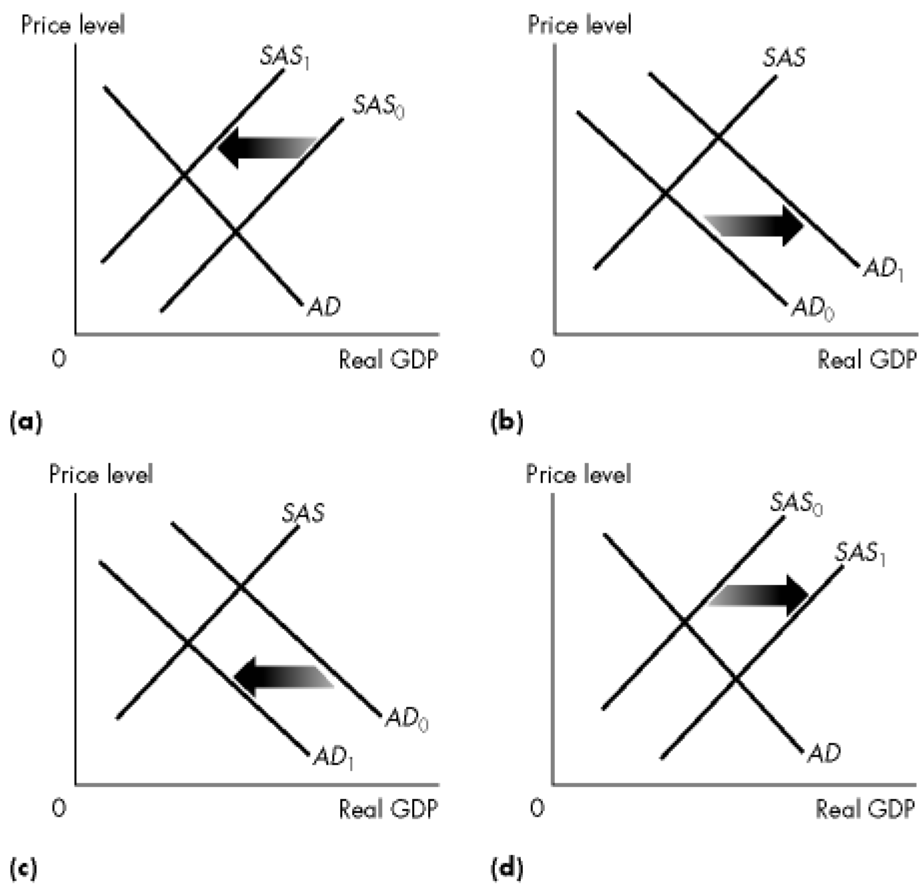

Figure 28.1.5

31) Refer to Figure 28.1.5. Which one of the graphs in the figure represents an economy experiencing stagflation?
A) (a)
B) (b)
C) (c)
D) (d)
E) none of the above
Topic: Inflation Cycles

32) Refer to Figure 28.1.5. Which one of the graphs in the figure represents an economy with the price level expected to remain constant?

A) (a)
B) (b)
C) (c)
D) (d)
E) none of the above

Topic: Inflation Cycles

33) The economy starts out at a full-employment equilibrium. Some events then occur that generate a demand-pull inflation. All of the following events *except* an increase in ________ might cause a demand-pull inflation.

A) the money wage rate
B) government expenditure
C) exports
D) transfer payments
E) the quantity of money

Topic: Inflation Cycles

Use the figure below to answer the following question.

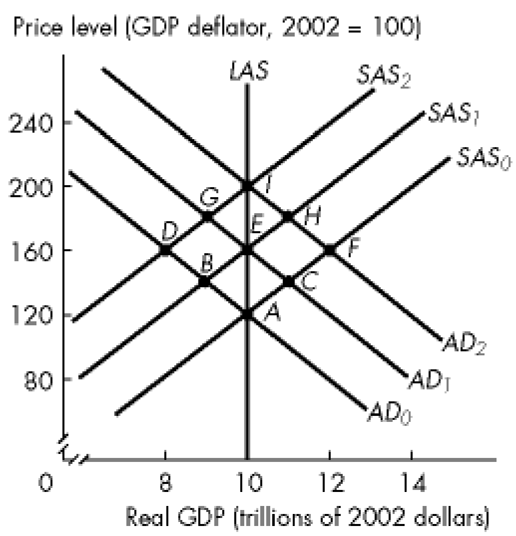

Figure 28.1.6

34) Refer to Figure 28.1.6. Starting at point *A*, the initial effect of a demand-pull inflation is a move to point ________. As a demand-pull inflation spiral proceeds, it follows the path ________.

A) *B; E, G, I*
B) *C; B, H, G, I*
C) *C; E, H, I*
D) *E; I*
E) none of the above

Topic: Inflation Cycles

35) Refer to Figure 28.1.6. Starting at point *A*, the initial effect of a cost–push inflation is a move to point ________. As a cost–push inflation spiral proceeds, it follows the path ________.

A) *B; E, G, I*
B) *C; E, H, I*
C) *C; F*
D) *E; I*
E) *C; B, H, G, I*

Topic: Inflation Cycles

36) The economy starts out at a full–employment equilibrium. Some events then occur that generate a cost–push inflation. Which of the following events might cause a cost–push inflation?

A) An increase in taxes.
B) An increase in the quantity of money.
C) An increase in the money wage rate or an increase in the money prices of raw materials.
D) A decrease in exports.
E) A decrease in government expenditure.

Topic: Inflation Cycles

Use the figure below to answer the following questions.

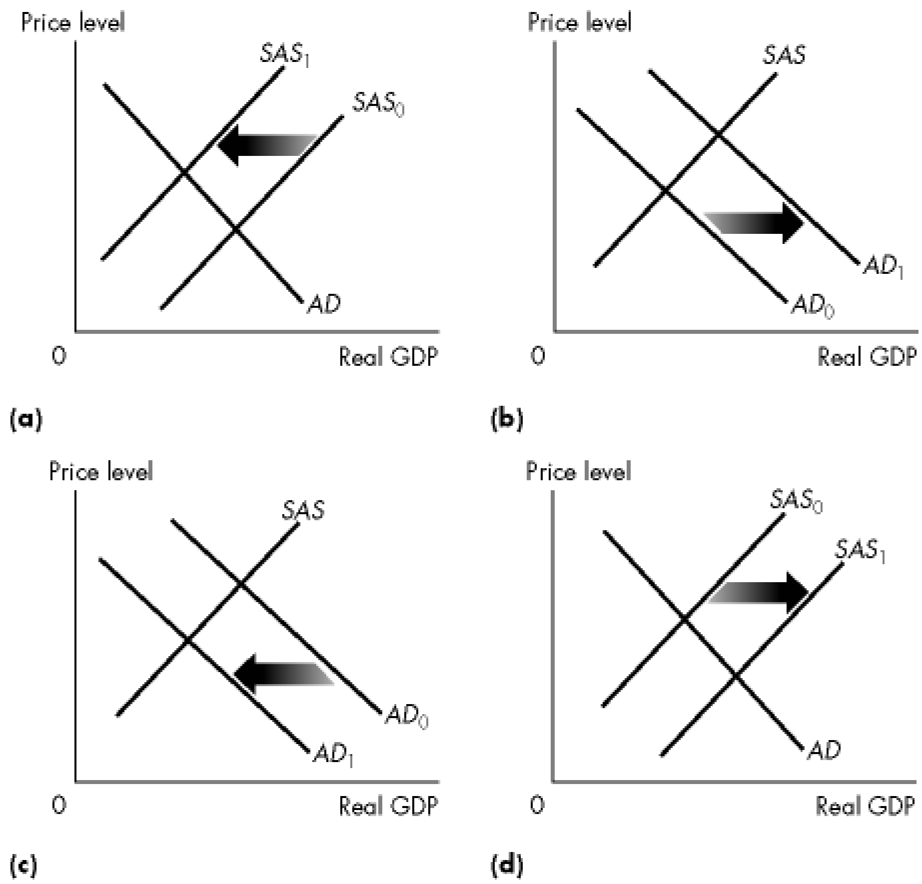

Figure 28.2.1

37) Refer to Figure 28.2.1. Which of the graphs in the figure represents an economy that is moving *down* along a short-run Phillips curve?
   A) (a)
   B) (b)
   C) (c)
   D) (d)
   E) (a) or (c)

Topic: Inflation and Unemployment: The Phillips Curve

38) Refer to Figure 28.2.1. Which one of the graphs in the figure represents an economy that is moving *up* along a short-run Phillips curve?
   A) (a)
   B) (b)
   C) (c)
   D) (d)
   E) (b) or (d)

Topic: Inflation and Unemployment: The Phillips Curve

39) Along the short–run Phillips curve, everything remaining the same, the higher the
A) price level, the lower the inflation rate.
B) money wage rate, the lower is the unemployment rate.
C) quantity of money, the lower the unemployment rate.
D) unemployment rate, the lower the inflation rate.
E) growth rate of the quantity of money, the higher the inflation rate.

Topic: Inflation and Unemployment: The Phillips Curve

40) The short–run Phillips curve shows the relationship between ________ holding constant the expected inflation rate and the natural unemployment rate.
A) the inflation rate and the economic growth rate
B) the inflation rate and the unemployment rate
C) unemployment and the economic growth rate
D) the inflation rate and the growth of the money wage rate.
E) growth and potential GDP.

Topic: Inflation and Unemployment: The Phillips Curve

41) If the unemployment rate rises and the inflation rate falls, while the natural unemployment rate and the expected inflation rate remain constant, then we are studying a movement along the
A) Phelps–Friedman curve.
B) aggregate demand curve.
C) Friedman curve.
D) short–run Phillips curve.
E) long–run aggregate supply curve.

Topic: Inflation and Unemployment: The Phillips Curve

42) For a given expected inflation rate, the higher the unemployment rate, the lower is the actual inflation rate. This relationship is the ________ Phillips curve. When the expected inflation rate changes, this is shown as a movement along the ________ Phillips curve.
A) short–run; short–run
B) long–run; long–run
C) long–run; natural
D) short–run; long–run
E) natural; short–run

Topic: Inflation and Unemployment: The Phillips Curve

43) If the natural unemployment rate rises
A) the long–run Phillips curve shifts leftward and the short–run Phillips curve does not change.
B) the short–run Phillips curve shifts rightward and the long–run Phillips curve does not change.
C) the short–run and long–run Phillips curves both shift leftward.
D) the short–run and long–run Phillips curves both shift rightward.
E) the long–run Phillips curve shifts rightward and the short–run Phillips curve does not change.

Topic: Inflation and Unemployment: The Phillips Curve

44) If the natural unemployment rate falls
A) the short–run and long–run Phillips curves both shift leftward.
B) the short–run and long–run Phillips curves both shift rightward.
C) the long–run Phillips curve shifts leftward and the short–run Phillips curve does not change.
D) the short–run Phillips curve shifts rightward.
E) the long–run Phillips curve shifts rightward and the short–run Phillips curve does not change.

Topic: Inflation and Unemployment: The Phillips Curve

45) The short–run Phillips curve shows the relationship between
A) inflation and unemployment, when the expected inflation rate and the natural unemployment rate remain constant.
B) the price level and unemployment in the short run.
C) inflation and unemployment, when inflation expectations can change.
D) unemployment and real GDP in the short run.
E) the price level and real GDP in the short run.

Topic: Inflation and Unemployment: The Phillips Curve

46) Along the short–run Phillips curve, if the actual unemployment rate falls below the natural unemployment rate, the
A) actual inflation rate will be greater than the expected inflation rate.
B) expected inflation rate will fall to zero.
C) actual inflation rate will be equal to the expected inflation rate.
D) actual inflation rate may be greater than, equal to, or less than the expected inflation rate
E) actual inflation rate will be less than the expected inflation rate.

Topic: Inflation and Unemployment: The Phillips Curve

47) A movement down along the short–run Phillips curve results from an unanticipated
A) increase in the natural unemployment rate.
B) decrease in aggregate demand.
C) increase in aggregate demand.
D) decrease in short–run aggregate supply.
E) increase in short–run aggregate supply.

Topic: Inflation and Unemployment: The Phillips Curve

48) An increase in the expected rate of inflation shifts the
A) short–run Phillips curve upward.
B) long–run Phillips curve rightward.
C) short–run Phillips curve downward.
D) long–run Phillips curve leftward.
E) B and C are correct.

Topic: Inflation and Unemployment: The Phillips Curve

Use the table below to answer the following questions.

Table 28.2.1

Inflation (percent per year)	Unemployment (percent)
12	4
11	5
10	6
9	7
8	8
7	9

49) Refer to Table 28.2.1. The table gives points on the short–run Phillips curve for the country of Ruritania. If the expected inflation rate is 10 percent, what is the natural unemployment rate?
A) 7 percent
B) 4 percent
C) 9 percent
D) 5 percent
E) 6 percent

Topic: Inflation and Unemployment: The Phillips Curve

50) Refer to Table 28.2.1. The table gives points on the short–run Phillips curve for the country of Ruritania. If the expected inflation rate is 10 percent, and the inflation rate unexpectedly rises to 12 percent, what is the unemployment rate?

A) 5 percent
B) 6 percent
C) 4 percent
D) 7 percent
E) 9 percent

Topic: Inflation and Unemployment: The Phillips Curve

51) Refer to Table 28.2.1. The table gives points on the short–run Phillips curve for the country of Ruritania. If the expected inflation rate is 10 percent, and the inflation rate unexpectedly falls to 8 percent, what is the unemployment rate?

A) 8 percent
B) 5 percent
C) 4 percent
D) 7 percent
E) 6 percent

Topic: Inflation and Unemployment: The Phillips Curve

52) Refer to Table 28.2.1. The table gives points on the short–run Phillips curve for the country of Ruritania. If the expected inflation rate is 10 percent, and the inflation rate unexpectedly rises to 12 percent and stays there for some period of time, the expected inflation rate becomes ________ percent and the natural unemployment rate is ________ percent.

A) 12; 5
B) 10; 4
C) 12; 4
D) 10; 6
E) 12; 6

Topic: Inflation and Unemployment: The Phillips Curve

Use the figure below to answer the following questions.

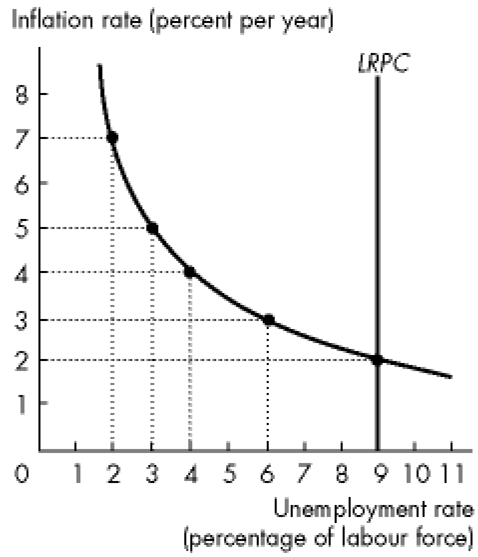

Figure 28.2.2

53) Refer to Figure 28.2.2. The figure illustrates an economy's Phillips curves. What is the natural unemployment rate?
A) 7 percent
B) 6 percent
C) 9 percent
D) 4 percent
E) cannot be determined without more information

Topic: Inflation and Unemployment: The Phillips Curve

54) Refer to Figure 28.2.2. The figure illustrates an economy's Phillips curves. What is the expected inflation rate?
A) 7 percent
B) 4 percent
C) 9 percent
D) 2 percent
E) cannot be determined without more information

Topic: Inflation and Unemployment: The Phillips Curve

55) Refer to Figure 28.2.2. The figure illustrates an economy's Phillips curves. If the current inflation rate is 4 percent, what is the current unemployment rate?
A) 9 percent
B) 6 percent
C) 3 percent
D) 4 percent
E) cannot be determined without more information

Topic: Inflation and Unemployment: The Phillips Curve

56) Refer to Figure 28.2.2. The figure illustrates an economy's Phillips curves. If the current inflation rate is 3 percent, what is the current unemployment rate?
A) 4 percent
B) 9 percent
C) 6 percent
D) 3 percent
E) cannot be determined without more information

Topic: Inflation and Unemployment: The Phillips Curve

57) Refer to Figure 28.2.2. The figure illustrates an economy's Phillips curves. If the current inflation rate is 4 percent, what is the natural unemployment rate?

A) 3 percent
B) 6 percent
C) 9 percent
D) 4 percent
E) cannot be determined without more information

Topic: Inflation and Unemployment: The Phillips Curve

58) Refer to Figure 28.2.2. The figure illustrates an economy's Phillips curves. If the expected inflation rate changes to 3 percent, the

A) short run Phillips curve will shift downward and the long run Phillips curve will not change.
B) short run Phillips curve will shift downward and the long run Phillips curve will shift rightward.
C) short run Phillips curve will shift upward and the long run Phillips curve will shift rightward.
D) short run Phillips curve will shift upward and the long run Phillips curve will shift leftward.
E) short run Phillips curve will shift upward and the long run Phillips curve will not change.

Topic: Inflation and Unemployment: The Phillips Curve

59) If the inflation rate is lower than the expected inflation rate,

A) the expected inflation rate will increase.
B) the natural unemployment rate will increase.
C) the economy is not operating on the short-run Phillips curve.
D) unemployment is above the natural rate.
E) unemployment is below the natural rate.

Topic: Inflation and Unemployment: The Phillips Curve

60) If there is a fully anticipated increase in the inflation rate

A) the economy is not operating on the *LRPC* curve.
B) unemployment will be below the natural rate.
C) the natural unemployment rate will increase.
D) the economy is operating on the *LRPC* curve.
E) unemployment will be above the natural rate.

Topic: Inflation and Unemployment: The Phillips Curve

61) If the natural unemployment rate increases, the long-run Phillips curve ________, the short-run Phillips curve ________, and the expected inflation rate ________.

A) does not shift; does not shift; does not change
B) does not shift; shifts rightward; rises
C) shifts rightward; shifts rightward; falls
D) shifts rightward; curve does not shift; falls
E) shifts rightward; shifts rightward; does not change

Topic: Inflation and Unemployment: The Phillips Curve

62) The Canadian short-run Phillips curve ________ when the expected inflation rate rises and ________ when the expected inflation rate falls.
The Canadian short-run Phillips curve ________ when the natural unemployment rate increases and ________ when the natural unemployment rate decreases.

A) shifts upward; shifts downward; does not shift; does not shift
B) shifts downward; shifts upward; shifts rightward; shifts leftward
C) shifts upward; does not shift; shifts rightward; does not shift
D) does not shift; does not shift; shifts rightward; shifts leftward
E) shifts upward; shifts downward; shifts rightward; shifts leftward

Topic: Inflation and Unemployment: The Phillips Curve

63) The Canadian long-run Phillips curve ________ when the expected inflation rate rises and ________ when the expected inflation rate falls.
The Canadian long-run Phillips curve ________ when the natural unemployment rate increases and ________ when the natural unemployment rate decreases.
A) does not shift; does not shift; does not shift; does not shift
B) shifts rightward; shifts leftward; does not shift; does not shift
C) shifts rightward; shifts leftward; shifts rightward; shifts leftward
D) does not shift; does not shift; shifts rightward; shifts leftward
E) shifts upward; shifts downward; shifts rightward; shifts leftward

Topic: Inflation and Unemployment: The Phillips Curve

64) According to ________, the business cycle is the result of aggregate demand growing at a fluctuating rate.
A) the Keynesian cycle theory only
B) only the Keynesian and monetarist cycle theories
C) the Keynesian, monetarist, and real business cycle theories
D) real business cycle theory
E) the Keynesian, monetarist, and new classical cycle theories

Topic: The Business Cycle

65) Which of the following are business cycle theories that regard fluctuations in aggregate demand as the factor that creates business cycles?
I. Keynesian cycle theory
II. real business cycle theory
III. monetarist cycle theory
A) I and III
B) II and III
C) I and II
D) I only
E) I, II and III

Topic: The Business Cycle

66) Which of the following is not a mainstream theory of the business cycle?
A) Monetarist cycle theory.
B) Real business cycle theory.
C) New classical cycle theory.
D) New Keynesian cycle theory.
E) Keynesian cycle theory.

Topic: The Business Cycle

67) In the Keynesian business cycle theory, business cycles begin with a change in
A) inflation expectations.
B) government expenditure.
C) the money wage rate.
D) business confidence.
E) monetary policy.

Topic: The Business Cycle

68) ________ states that the main source of economic fluctuations is fluctuations in business confidence.
A) Real business cycle theory
B) Keynesian cycle theory
C) Monetarist cycle theory
D) New classical cycle theory
E) None of the above

Topic: The Business Cycle

Use the figure below to answer the following questions.

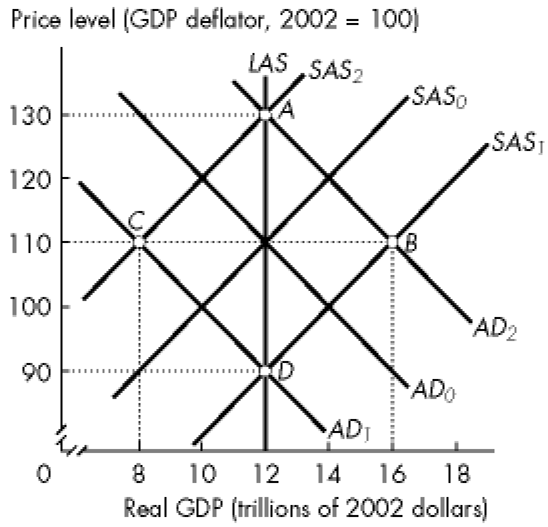

Figure 28.3.1

69) Refer to Figure 28.3.1. Suppose the economy moves from point *A* to point *C*. According to the monetarist theory of the business cycle, what could have caused this movement?
   A) An increase in the money wage rate.
   B) A decrease in the growth rate of the quantity of money.
   C) An increase in the growth rate of the quantity of money.
   D) Animal spirits.
   E) An increase in uncertainty.

Topic: The Business Cycle

70) Refer to Figure 28.3.1. Suppose the economy moves from point *D* to point *B*. According to the monetarist theory of the business cycle, what could have caused this movement?
   A) An increase in the growth rate of the quantity of money.
   B) A decrease in the money wage rate.
   C) An increase in the money wage rate.
   D) An increase in uncertainty about future sales and profits.
   E) A decrease in exports.

Topic: The Business Cycle

71) Both new Keynesian and new classical cycle theories claim that
   A) animal spirits can trigger a business cycle.
   B) unexpected changes in aggregate demand trigger a business cycle.
   C) expected changes in the quantity of money can trigger a business cycle.
   D) shifts in the *SAS* curve are the main impulse for a business cycle.
   E) a change in the price of oil is the major cause of a business cycle.

Topic: The Business Cycle

72) The key difference between new classical cycle theory and new Keynesian cycle theory is that the new classical cycle theory believes that ________ while the new Keynesian cycle theory believes that ________.

A) expected changes in aggregate demand change real GDP; expected changes in aggregate demand do not change real GDP
B) the short-run aggregate supply curve is horizontal; the short-run aggregate supply curve is vertical.
C) expected and unexpected changes in aggregate demand change real GDP; only changes in labour productivity change aggregate demand
D) only unexpected changes in aggregate demand change real GDP; only expected changes in aggregate demand change real GDP
E) only unexpected changes in aggregate demand change real GDP; both expected and unexpected changes in aggregate demand change real GDP

Topic: The Business Cycle

73) The ________ cycle theory states that only unexpected fluctuations in aggregate demand bring fluctuations in real GDP around potential GDP.

A) new classical
B) monetarist
C) real business
D) new Keynesian
E) Keynesian

Topic: The Business Cycle

74) In new classical cycle theory, ________ bring fluctuations in real GDP around potential GDP.

A) unexpected changes in aggregate demand
B) fluctuations in investment coupled with rigid wages
C) expected changes in labour productivity
D) fluctuations in money growth with rigid wages
E) expected changes in aggregate demand

Topic: The Business Cycle

75) The new classical theory argues that the primary factor leading to business cycles is

A) unexpected fluctuations in short-run aggregate supply.
B) unexpected fluctuations in long-run aggregate supply.
C) expected fluctuations in short-run aggregate supply.
D) unexpected fluctuations in aggregate demand.
E) expected fluctuations in aggregate demand.

Topic: The Business Cycle

76) New Keynesian economists believe that ________ is influenced by ________.

A) yesterday's rational expectations of the price level; today's money wage rate
B) today's money wage rate; today's rational expectations of the price level
C) yesterday's money wage rate ; today's rational expectations of the money wage
D) today's money wage rate; yesterday's rational expectations of the price level
E) today's money wage rate; animal spirits

Topic: The Business Cycle

77) Which business cycle theory emphasizes that, because of previously negotiated wage agreements, both expected and unexpected fluctuations in aggregate demand can change real GDP?

A) The new Keynesian cycle theory.
B) Keynesian cycle theory.
C) Real business cycle theory.
D) Monetarist cycle theory.
E) The new classical cycle theory.

Topic: The Business Cycle

78) The factor leading to business cycles in the ________ cycle theory is unexpected fluctuations in aggregate demand while in the ________ cycle theory both unexpected and expected fluctuations in aggregate demand are factors that lead to business cycles.
A) real business; monetarist
B) new classical; monetarist
C) new classical; new Keynesian
D) monetarist; new Keynesian
E) new Keynesian; Keynesian

Topic: The Business Cycle

79) According to ________ theory, a decrease in productivity growth shifts the ________.
A) Keynesian cycle; *SAS* curve leftward
B) real business cycle; *AD* curve leftward
C) real business cycle; *AD* curve rightward
D) Keynesian cycle; *SAS* curve rightward
E) real business cycle; demand for loanable funds curve leftward

Topic: The Business Cycle

80) The key ripple effect in real business cycle theory is the ________ decision and it depends on the ________.
A) what-to-save; nominal interest rate
B) when-to-invest; real interest rate
C) when-to-work; rigidity of the money wage rate
D) where-to-work; real wage rate
E) when-to-work; real interest rate

Topic: The Business Cycle

81) According to the real business cycle theory, what effects follow from a change in productivity?
I. Investment demand changes.
II. The demand for labour changes.
III. Government expenditure changes.
A) I
B) I and III
C) II and III
D) I and II
E) I, II and III

Topic: The Business Cycle

82) "Intertemporal substitution" in real business cycle theory refers to the change in the ________ as a result of the change in the real interest rate.
A) demand for loanable funds
B) supply of labour
C) demand for labour
D) consumer demand for goods
E) personal tax rate

Topic: The Business Cycle

83) In real business cycle theory, a decrease in productivity leads to all of the following events *except*
A) a decrease in the demand for labour.
B) a decrease in the supply of labour.
C) a rise in the real wage rate.
D) a fall in the real interest rate.
E) a decrease in the demand for loanable funds.

Topic: The Business Cycle

84) In real business cycle theory, the supply of labour
A) is independent of the real interest rate.
B) increases if the nominal interest rate rises.
C) decreases if the real wage rate decreases.
D) decreases if the real interest rate rises.
E) decreases if the real interest rate falls.

Topic: The Business Cycle

85) Suppose that a severe shock that decreases the demand for loanable funds hits Canada. Which of the following can we expect to occur according to real business cycle theory?
A) The real wage rate will fall.
B) The demand for loanable funds will decrease.
C) People will work fewer hours.
D) The real interest rate will fall.
E) All of the above are true.

Topic: The Business Cycle

86) According to real business cycle theory, an increase in productivity ________ the demand for loanable funds, ________ the demand for labour, and ________ the supply of labour. The real interest rate will ________.
A) increases; increases; increases; rise
B) decrease; decreases; decreases; fall
C) increases; increases; increases; fall
D) increase; increases; does not change; rise
E) increase; increases; does not change; fall

Topic: The Business Cycle

87) According to the real business cycle theory, during a recession the demand for labour ________ and the supply of labour ________.
A) does not change; decreases
B) decreases; increases
C) increases; decreases
D) decreases; does not change
E) decreases; decreases

Topic: The Business Cycle

88) According to real business cycle theory, workers' decisions to work now versus later depend on
A) the real wage rate today but not the real wage rate in the future.
B) labor productivity.
C) the real interest rate.
D) the money wage rate.
E) none of the above.

Topic: The Business Cycle

89) Suppose that in response to a decrease in real interest rates, a person decides to reduce his supply of labour today and increase it in the future. This behaviour is most consistent with the
A) new Keynesian cycle theory.
B) monetarist cycle theory.
C) Keynesian cycle theory.
D) real business cycle theory.
E) new classical cycle theory.

Topic: The Business Cycle

90) According to real business cycle theory, if the Bank of Canada increases the quantity of money when real GDP decreases, real GDP

A) will be unaffected, but the price level will rise.
B) and the price level will both be unaffected.
C) will increase but only temporarily.
D) will increase permanently.
E) will decrease due to the inefficiencies introduced into production as a result.

Topic: The Business Cycle

91) Suppose that the business cycle in Canada is best described by RBC theory.
An advance in technology increases productivity.
The when–to–work decision depends on the real interest rate. The ________ the real interest rate, other things remaining the same, the ________ is the supply of labour today.
RBC theorists believe the when–to–work effect is ________.

A) lower; larger; large
B) higher; smaller; small
C) higher; larger; small
D) lower; smaller; small
E) higher; larger; large

Topic: The Business Cycle

92) According to mainstream business cycle theory, ________ grows at a steady rate and ________ grows at a fluctuating rate.

A) short–run aggregate supply; long–run aggregate supply
B) short–run aggregate supply; aggregate demand
C) potential GDP; aggregate demand
D) potential GDP; short–run aggregate supply
E) aggregate demand; long–run aggregate supply

Topic: The Business Cycle

93) In real business cycle theory, ________ are the main source of economic fluctuations.

A) unexpected changes in government expenditure
B) random fluctuations in investment
C) unexpected changes in the full–employment quantity of labour
D) changes in the quantity of money
E) random fluctuations in productivity

Topic: The Business Cycle

Answer Key
Testname: 028 CAN UE INFL & B C

1) C
2) B
3) A
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6) E
7) D
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