

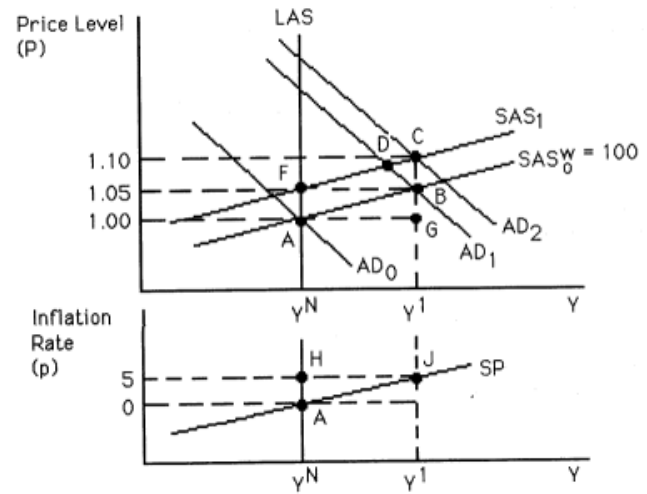
# Assignment 8

Select the best answers for the following questions and fill in the attached response sheet.

- 1) The short-run Phillips curve gives
  - A) the actual short-run level of real GDP and inflation.
  - B) all possible combinations of real GDP and inflation, for a given set of expectations.
  - C) all possible combinations of real GDP and inflation, for fully adjusted expectations.
  - D) the response of real GDP and inflation to supply shocks.
  - E) None of the above.
  
- 2) A rising nominal wage causes
  - A) upward movement along the SAS curve.
  - B) downward movement along the SAS curve.
  - C) a downward shift of the SAS curve.
  - D) an upward shift of the SAS curve.
  - E) None of the above.
  
- 3) If in 2008, the growth rate of real GDP was 2.46 percent and the inflation rate was 1.94 percent. The growth of nominal GDP was
  - A) 4.40 percent.
  - B) 0.52 percent.
  - C) 3.88 percent.
  - D) 4.92 percent.
  - E) None of the above.
  
- 4) Suppose that successive AD/SAS equilibrium points run up a vertical line to the right of the LAS curve. It must be the case that inflation is \_\_\_\_\_ the average expected inflation figured into the wage contracts in force, which allows output to \_\_\_\_\_ the natural GDP.
  - A) greater than, remain below
  - B) greater than, remain above
  - C) less than, remain below
  - D) less than, remain above
  - E) equal to, be maintained at
  
- 5) Assuming  $Y_N$  is constant, if nominal GDP growth has accelerated permanently,
  - A) real GDP must keep growing until the growth rate of nominal GDP equals the inflation rate.
  - B) real GDP will increase by the same percentage that nominal GDP increased.
  - C) real GDP must keep growing until the rate of growth of real GDP equals the inflation rate.
  - D) the level of real GDP will be permanently increased.
  - E) None of the above.

6) In the figure shown, in going from points A to B the real wage \_\_\_\_\_, and then from point B to point C (where the exact price level is 1.1025, rounded to 1.10 in the diagram) the real wage \_\_\_\_\_.

- A) rose, remained constant
- B) rose, rose again
- C) fell, remained constant
- D) fell, fell again
- E) remained constant, remained constant



- 7) Who among the following is not frictionally unemployed?
- A) Andrew, a teenager who has just entered the labor market looking for his first part-time job.
  - B) Barbara, who is re-entering the labor market after a divorce.
  - C) Charles, who was laid off from his factory job but expects to be recalled in a few weeks.
  - D) Diana, who has quit her job and is now looking for another.
  - E) All of the above are frictionally unemployed.
- 8) Which of the following theories fails to explain persistent unemployment?
- A) Classical theory
  - B) Friedman's fooling theory
  - C) New Keynesian theory
  - D) Both A and B are correct.
  - E) Both B and C are correct.
- 9) Indexation of wages to changes in prices is designed to
- A) moderate the costs of inflation, not inflation itself.
  - B) rapidly reduce inflation.
  - C) reduce the natural rate of unemployment.
  - D) rapidly reduce inflationary expectations.
  - E) None of the above.
- 10) The long-run Phillips curve is
- A) horizontal at the level of expected inflation  $\pi^e$ .
  - B) vertical at the output ratio  $(Y/Y_N)$  of 1.
  - C) dependent on price expectations.
  - D) dependent on the rate of inflation.
  - E) None of the above.

- 11) If the Fed wishes to increase the money supply it can
- A) increase reserve requirements.
  - B) sell securities to banks and/or the public.
  - C) increase the rediscount (i.e., discount) rate.
  - D) None of the above is correct.
  - E) Both B and C are correct.
- 12) If no currency is held by the public, then high powered money is
- A) total deposits received by banks within the system.
  - B) reserves held by banks to meet withdrawals.
  - C) deposits divided by the reserve ratio.
  - D) the reserve holding ratio divided by the level of deposits.
  - E) None of the above.
- 13) The stock of high-powered money in the economy is \$80 billion. The bank reserve ratio is 0.22 and the public wishes to hold 10% of its deposits as cash. The level of bank deposits will be
- A) \$333 billion.
  - B) \$100 billion.
  - C) \$250 billion.
  - D) \$200 billion.
  - E) None of the above.
- 14) Provided there are no currency leakages to the public, a \$1 increase in high-powered money raises the quantity of deposits until
- A) all of that increase in high-powered money is held as required reserves.
  - B) required reserves fall back down to zero.
  - C) required reserves rise back up to zero.
  - D) deposits rise by \$1.
  - E) GDP rises by \$1 times the income-determination multiplier.
- 15) Keynes's "speculative motive" for holding money
- A) was based on the behavior of speculators who make gains by switching their asset holdings between bonds and common stock.
  - B) assumed that as the interest rate rose, speculators would move from bonds to money.
  - C) assumed that as the interest rate rose, speculators would move from money to bonds.
  - D) None of the above is correct.

# Assignment 8 Response Sheet

<b>1</b>	A	B	C	D	E
<b>2</b>	A	B	C	D	E
<b>3</b>	A	B	C	D	E
<b>4</b>	A	B	C	D	E
<b>5</b>	A	B	C	D	E
<b>6</b>	A	B	C	D	E
<b>7</b>	A	B	C	D	E
<b>8</b>	A	B	C	D	E
<b>9</b>	A	B	C	D	E
<b>10</b>	A	B	C	D	E
<b>11</b>	A	B	C	D	E
<b>12</b>	A	B	C	D	E
<b>13</b>	A	B	C	D	E
<b>14</b>	A	B	C	D	E
<b>15</b>	A	B	C	D	E