Econ 20B- Additional Problem Set for Chapter 35

I. MULTIPLE CHOICES. Choose the one alternative that best completes the statement to answer the question.

1. If the minimum wage increased, then at any given rate of inflation
   a. both output and employment would be higher.
   b. neither output nor employment would be higher.
   c. output would be higher and unemployment would be lower.
   d. output would be lower and unemployment would be higher.

2. If inflation expectations rise, the short-run Phillips curve shifts
   a. right, so that at any inflation rate unemployment is higher in the short run than before.
   b. left, so that at any inflation rate unemployment is higher in the short run than before.
   c. right, so that at any inflation rate unemployment is lower in the short run than before.
   d. left, so that at any inflation rate unemployment is lower in the short run than before.

3. A policy intended to take reduce unemployment by taking advantage of a tradeoff between inflation and unemployment leads to
   a. both higher inflation and higher unemployment in the long run.
   b. higher inflation and no reduction in unemployment in the long run.
   c. the same inflation rate and lower unemployment in the long run.
   d. higher inflation and lower unemployment in the long run

4. In the long run an increase in the money supply growth rate effects
   a. the inflation rate and the natural rate of unemployment.
   b. the inflation rate, but not the natural rate of unemployment.
   c. neither the inflation rate nor the natural rate of unemployment.
   d. the natural rate of unemployment, but not the inflation rate.

5. If in response to an adverse aggregate supply shock the Fed increased the money supply,
   a. unemployment and inflation would both rise.
   b. unemployment and inflation would both fall.
   c. unemployment would rise and inflation would fall.
   d. unemployment would fall and inflation would rise.

6. Which of the following is correct if there is a favorable supply shock?
   a. the short-run aggregate supply curve and the short-run Phillips curve both shift right.
   b. the short-run aggregate supply curve and the short-run Phillips curve both shift left.
   c. the short-run aggregate supply curve shifts right and the short-run Phillips curve shifts left.
   d. the short-run aggregate supply curve shifts left and the short-run Phillips curve shifts right.

7. If the Fed reduces inflation 1 percentage point and this makes output fall 5 percentage points and unemployment rises 2 percentage points for one year, the sacrifice ratio is
   a. 1/5.
   b. 2.
   c. 5/2.
   d. 5.

8. Which of the following is disinflation?
   a. prices stay the same.

b. prices fall.
c. prices rise at a slower rate than they used to.
d. prices rise as a faster rate than they used to.

9. The theory by which people optimally use all available information when forecasting the future is known as
   a. rational expectations.
   b. perfect expectations.
   c. credible expectations.
   d. predictive expectations.

10. Most economists believe that a tradeoff between inflation and unemployment exists
   a. only in the short run.
   b. only in the long run.
   c. in both the short and long run.
   d. in neither the short nor long run.

11. In the long run, the inflation rate depends primarily on
   a. the ability of unions to raise wages.
   b. government spending.
   c. the money supply growth rate.
   d. the monopoly power of firms.

12. Unemployment would decrease and prices increase if
   a. aggregate demand shifted right.
   b. aggregate demand shifted left.
   c. aggregate supply shifted right.
   d. aggregate supply shifted left.

13. If the short-run Phillips curve were stable, which of the following would be unusual?
   a. an increase in government spending and a fall in unemployment
   b. an increase in inflation and a decrease in output
   c. a decrease in the inflation rate and a rise in the unemployment rate
   d. a decrease in the money supply and a rise in unemployment.

14. According to classical macroeconomic theory, in the long run
   a. monetary growth affects both real and nominal variables.
   b. the only real variable affected by monetary growth is the unemployment rate.
   c. a number of factors that affect unemployment are influenced by monetary growth.
   d. monetary growth affects nominal but not real variables.

15. The existence of sticky wages leads to a positive relationship between the actual price level and the quantity of output supplied
   a. in both the short and long run.
   b. in the short run, but not the long run.
   c. in the long run, but not the short run.
   d. in neither the short nor the long run.

16. Which of the following would shift the long-run Phillips curve right?
   a. expansionary fiscal policy.
   b. an increase in the inflation rate.
   c. increases in unemployment compensation.
   d. None of the above is correct.

17. A decrease in expected inflation shifts
   a. the long-run Phillips curve left.
   b. the short-run Phillips curve left.
   c. neither the short-run nor long-run Phillips curve left.
   d. both the short-run and long-run Phillips curve left.

III. SHORT ESSAYS. Answer the following questions briefly but concisely.

1. Are the effects of an increase in aggregate demand in the aggregate demand and aggregate supply model consistent with the Phillips curve? Explain.

2. Suppose that the Fed unexpectedly pursues contractionary monetary policy. What will happen to unemployment in the short run? What will happen to unemployment in the long run?

3.Some economists argue that simply and suddenly reducing money supply growth is a costly way to reduce inflation and that it may not work. For example, if a government cuts money growth but makes no real fiscal reforms, people will expect the government will eventually need to expand the money supply to pay for its expenditures. Thus, the promise to fight inflation will not be credible. Explain why credibility is important to a reduction in the inflation rate.