Practice Multiple Choice Questions
Mid term II

Choose the one alternative that best completes the statement or answers the question.

1. If the economy is on the LM curve but *not* on the IS curve, then we know that
   a. the good market is in equilibrium, but not the money market.
   b. the money market and bond markets are in equilibrium, but not the goods market.
   c. the money market and goods market are in equilibrium, but not the bond market.
   d. the money, bond and goods markets are all in equilibrium;
   e. neither the money, bond, nor goods markets are in equilibrium.

2. If investment spending depends *only* on the interest rate, and not on output, then a *decrease* in the budget deficit
   a. will cause investment spending to decrease.
   b. will cause investment spending to increase.
   c. may cause investment spending to increase, but only if investment is not very sensitive to interest rate changes.
   d. will cause investment spending to rise or fall, depending on the reason for the drop in the budget deficit.
   e. may cause the interest rate to rise or fall, depending on how sensitive investment is to interest rate changes.

3. A fiscal expansion coupled with a monetary expansion must always cause:
   a. output to rise.
   b. output to fall.
   c. the interest rate to rise.
   d. the interest rate to fall.
   e. both output and the interest rate to rise.

4. After a contractionary or expansionary fiscal policy,
   a. the LM curve shifts and we move along the IS curve.
   b. the IS curve shifts and we move along the LM curve.
   c. both the IS and LM curves shift.
   d. neither the IS nor the LM curve shifts.
   e. the LM curve shifts; the IS curve may or may not shift depending on the actions of the central bank.

5. After a monetary expansion, which of the following is a complete list of the variables that *must* increase?
   a. Consumption.
   b. Consumption and investment.
   c. Consumption and output.
   d. Consumption, output and the interest rate.
   e. Consumption, output and investment.
6. An individual is considered unemployed if he or she:
   a. works only part-time.
   b. works full-time in a family business.
   c. is not working and is not looking for work.
   d. all of the above
   e. none of the above

7. The reservation wage is:
   a. the wage that an employer must pay workers to reduce turnover to a reasonable level.
   b. the wage that ensures a laid-off individual will wait for re-hire, rather than find another job.
   c. the wage that would make an individual indifferent between working or not working.
   d. the wage offer that will end a labor-strike.
   e. the bribe that must be paid to a maitre d' when you want a table but did not call in advance.

8. Efficiency wage theory suggests that:
   a. workers will be paid more than their reservation wage.
   b. productivity might drop if the wage rate is too high.
   c. the government can only set tax rates so high before people will prefer not to work.
   d. unskilled workers will have a lower turnover rate than skilled workers.
   e. firms will be more resistant to wage increases as the labor market tightens.

9. In the wage-setting relation, the nominal wage falls when:
   a. the price level falls.
   b. the unemployment rate falls.
   c. unemployment benefits increase.
   d. the minimum wage increases.
   e. all of the above

10. The natural rate of unemployment is the rate of unemployment:
    a. that occurs when the money market is in equilibrium.
    b. where the markup of prices over costs is zero.
    c. where the markup of prices over costs is equal to its historical value.
    d. that occurs when both the goods and financial markets are in equilibrium.
    e. consistent with both the wage-setting and price-setting equations.

11. The aggregate demand curve will shift to the right when which of the following occurs?
    a. a decrease in the money supply
    b. a reduction in consumer confidence
    c. a rise in the price level
    d. a decrease in taxes
    e. a decrease in the price level