

Chapter 29

AS-AD and the Business Cycle

29.1 Business-Cycle Definitions and Facts

- 1) The relationship between real GDP and potential GDP over the business cycle can be best summarized by which of the following statements?
- A) Real GDP fluctuates around potential GDP.
 - B) Real GDP is always equal to potential GDP.
 - C) Real GDP cannot be greater than potential GDP.
 - D) Real GDP cannot be less than potential GDP.
 - E) Real GDP cannot be equal to potential GDP.

Answer: A

Topic: Business cycle

Skill: Level 2: Using definitions

Objective: Checkpoint 29.1

Author: WM

- 2) Over the business cycle,
- A) potential GDP fluctuates around its trend.
 - B) real GDP fluctuates around its trend.
 - C) only potential GDP fluctuates around its trend and real GDP remains equal to its trend.
 - D) only real GDP fluctuates around its trend and potential GDP remains equal to its trend.
 - E) neither real GDP nor potential GDP fluctuate because they just grow smoothly along their trends.

Answer: B

Topic: Business cycle

Skill: Level 2: Using definitions

Objective: Checkpoint 29.1

Author: WM

- 3) A business cycle has two turning points, which are the
- A) recession and trough.
 - B) peak and recession.
 - C) trough and peak.
 - D) expansion and recession.
 - E) peak and expansion.

Answer: C

Topic: Business cycle

Skill: Level 1: Definition

Objective: Checkpoint 29.1

Author: AA

- 4) The business cycle has two phases,
- A) expansion and peak.
 - B) recession and trough.
 - C) peak and trough.
 - D) recession and expansion.
 - E) expansion and trough.

Answer: D

Topic: Business cycle

Skill: Level 1: Definition

Objective: Checkpoint 29.1

Author: CT

- 5) The business cycle has
- A) four phases and one large turning point.
 - B) three phases and two turning points.
 - C) two phases and two turning points.
 - D) two phases and four turning points.
 - E) four phases and four turning points.

Answer: C

Topic: Business cycle

Skill: Level 1: Definition

Objective: Checkpoint 29.1

Author: WM

- 6) A standard definition of recession is
- A) a period of expansion in many sectors of the economy.
 - B) an increase in GDP that lasts for at least 6 months.
 - C) a decrease in GDP that lasts for at least 6 months.
 - D) an increase in unemployment from one month to the next.
 - E) a period of time when the unemployment rate exceeds 6.5 percent.

Answer: C

Topic: Business cycle, recession

Skill: Level 1: Definition

Objective: Checkpoint 29.1

Author: WM

- 7) Resources are most underused during which phase of the business cycle?
- A) expansion
 - B) recession
 - C) peak
 - D) under-phase
 - E) trend-bottom phase

Answer: B

Topic: Business cycle, recession

Skill: Level 1: Definition

Objective: Checkpoint 29.1

Author: CT

- 8) Identifying and dating business cycles is
- A) impossible because the economy changes so much.
 - B) done by the government, at the Commerce Department.
 - C) done by people on Wall Street.
 - D) done by a private organization, the NBER.
 - E) done by the government, at the Federal Reserve

Answer: D

Topic: Business cycle, NBER

Skill: Level 2: Using definitions

Objective: Checkpoint 29.1

Author: WM

- 9) Since 1854, the average length of an expansion phase in the United States is
- A) 35 months, about three years.
 - B) 48 months, about four years.
 - C) 72 months, about six years.
 - D) 120 months, about ten years.
 - E) 14 months, slightly more than a year.

Answer: A

Topic: Business cycle, history

Skill: Level 2: Using definitions

Objective: Checkpoint 29.1

Author: CT

- 10) Since 1854, about how many complete business cycles has the United States experienced?
- A) 2
 - B) 15
 - C) 33
 - D) 148
 - E) 68

Answer: C

Topic: Business cycle, history

Skill: Level 2: Using definitions

Objective: Checkpoint 29.1

Author: CT

- 11) In the United States, expansions have been the longest on the average between
- A) 1800 to 1854.
 - B) 1854 to 1919.
 - C) 1919 to 1945.
 - D) 1945 to 2005.
 - E) Both answers B and D are correct.

Answer: D

Topic: Business cycle, history

Skill: Level 1: Definition

Objective: Checkpoint 29.1

Author: AA

- 12) Comparing average recession and expansion phases before and after World War II, the data show that the average recession _____ increased in length after World War II and the average expansion _____ increased in length after World War II.
- A) has; has
 - B) has; has not
 - C) has not; has
 - D) has not; has not
 - E) might have; has

Answer: C

Topic: Business cycle, history

Skill: Level 1: Definition

Objective: Checkpoint 29.1

Author: CT

- 13) Looking at U.S. history since 1854, we find that the United States has
- A) only had business cycles since World War II.
 - B) spent about an equal amount of time in recessions as in expansions.
 - C) spent more time in recessions than in expansions.
 - D) spent more time in expansions than in recessions.
 - E) not had a complete business cycle since the end of World War II.

Answer: D

Topic: Business cycle, history

Skill: Level 1: Definition

Objective: Checkpoint 29.1

Author: WM

- 14) If we look at U.S. history since 1854 we find that
- A) recessions have been shorter since World War II.
 - B) business cycles only began following World War II.
 - C) business cycles were longer before World War II.
 - D) expansions were longer between 1919 to 1945 than after World War II.
 - E) expansions and recessions have been shorter since World War II.

Answer: A

Topic: Business cycle, history

Skill: Level 1: Definition

Objective: Checkpoint 29.1

Author: WM

- 15) The longest business cycle expansion in U.S. history occurred primarily during the
- A) 1960s.
 - B) 1970s.
 - C) 1980s.
 - D) 1990s.
 - E) 2000s.

Answer: D

Topic: U.S. recent business cycle

Skill: Level 1: Definition

Objective: Checkpoint 29.1

Author: AA

- 16) When the United States economy reached its trough in November, 2001, the unemployment rate
- A) had begun to decline three months prior to the trough.
 - B) began to decline immediately at the time the economy reached its trough.
 - C) began to decline about two months after the economy reached its trough.
 - D) began to decline about a year or so after the economy reached its trough.
 - E) began to decline about a three years or so after the economy reached its trough.

Answer: D

Topic: U.S. recent business cycle

Skill: Level 1: Definition

Objective: Checkpoint 29.1

Author: CT

29.2 Aggregate Supply

- 1) Over the business cycle, factors such as the quantity of capital, human capital and technology
- A) grow but do not fluctuate as much as the quantity of labor employed.
 - B) change drastically, fluctuating more than the quantity of labor employed.
 - C) fluctuate about the same amount as the quantity of labor employed.
 - D) do not grow and are therefore not the source of economic growth.
 - E) change randomly, sometimes growing, sometimes falling.

Answer: A

Topic: Aggregate supply

Skill: Level 2: Using definitions

Objective: Checkpoint 29.2

Author: WM

- 2) Which of the following does NOT affect potential GDP?
- A) the quantity of the money supply
 - B) the quantity of labor employed
 - C) the quantity of capital and human capital
 - D) the amount of entrepreneurial talent available
 - E) the quantity of land and natural resources

Answer: A

Topic: Potential GDP

Skill: Level 2: Using definitions

Objective: Checkpoint 29.2

Author: AA

- 3) Moving along the potential GDP line, if the price level rises then
- A) the quantity of GDP supplied increases.
 - B) the quantity of GDP supplied decreases.
 - C) there is no change in potential GDP.
 - D) the potential GDP line shifts out to the right.
 - E) the quantity of potential GDP supplied increases.

Answer: C

Topic: Potential GDP

Skill: Level 2: Using definitions

Objective: Checkpoint 29.2

Author: WM

- 4) The real wage rate *definitely* falls if the money wage rate ____ and the price level ____.
- A) remains constant; rises
 - B) remains constant; falls
 - C) rises; falls
 - D) rises; rises
 - E) falls; falls

Answer: A

Topic: Real wage rate

Skill: Level 2: Using definitions

Objective: Checkpoint 29.2

Author: WM

- 5) A fall in the real wage rate ____ firms' profits and leads to ____ in the quantity supplied.
- A) raises; an increase
 - B) raises; a decrease
 - C) lowers; an increase
 - D) lowers; a decrease
 - E) does not change; no change

Answer: A

Topic: Real wage rate

Skill: Level 2: Using definitions

Objective: Checkpoint 29.2

Author: WM

- 6) Moving along the AS curve, when the price level increases the
- A) real wage rate falls and there is an increase in the quantity of real GDP supplied.
 - B) real wage rate rises and there is an increase in the quantity of real GDP supplied.
 - C) nominal wage rate falls and there is an increase in the quantity of real GDP supplied.
 - D) nominal wage rate rises and there is a decrease in the quantity of real GDP supplied.
 - E) real wage rate rises and there is a decrease in the quantity of real GDP supplied.

Answer: A

Topic: Aggregate supply, price level

Skill: Level 2: Using definitions

Objective: Checkpoint 29.2

Author: WM

- 7) The aggregate supply curve illustrates that the
- A) higher the price level, the greater the quantity of real GDP supplied.
 - B) higher the price level, the smaller the quantity of real GDP supplied.
 - C) aggregate demand curve is not needed to determine the aggregate price level.
 - D) price level does not affect the quantity of real GDP supplied.
 - E) amount of potential GDP increases when the price level rises.

Answer: A

Topic: Aggregate supply, price level

Skill: Level 3: Using models

Objective: Checkpoint 29.2

Author: WM

- 8) If the price level increases from 110.0 to 115.0, the quantity of
- A) real GDP supplied will increase.
 - B) real GDP supplied will decrease.
 - C) potential GDP will decrease.
 - D) real GDP demanded will increase.
 - E) potential GDP will increase.

Answer: A

Topic: Aggregate supply, price level

Skill: Level 2: Using definitions

Objective: Checkpoint 29.2

Author: CT

- 9) A change in the price level
- A) shifts the aggregate supply curve rightward.
 - B) shifts the potential GDP line.
 - C) shifts the aggregate supply curve leftward.
 - D) changes the quantity of real GDP supplied.
 - E) shifts the aggregate demand curve leftward.

Answer: D

Topic: Aggregate supply, price level

Skill: Level 2: Using definitions

Objective: Checkpoint 29.2

Author: AA

- 10) The quantity of real GDP supplied increases when the price level increases because
- A) investment increases.
 - B) the quantity of money increases.
 - C) the real wage rate falls.
 - D) the real wage rate rises.
 - E) aggregate demand increases.

Answer: C

Topic: Aggregate supply, price level

Skill: Level 2: Using definitions

Objective: Checkpoint 29.2

Author: AA

- 11) Moving along the aggregate supply curve when the price level rises, the
- A) quantity supplied does not change because the aggregate supply curve is a vertical line.
 - B) the quantity supplied increases.
 - C) the quantity supplied decreases.
 - D) the aggregate demand curve shifts rightward.
 - E) the aggregate demand curve shifts leftward.

Answer: B

Topic: Aggregate supply, price level

Skill: Level 2: Using definitions

Objective: Checkpoint 29.2

Author: WM

- 12) During 2006, a country reports that its price level fell and the money wage rate did not change. These changes lead to
- A) a higher real wage rate, lower profits, and a decrease in the quantity of real GDP supplied.
 - B) a higher real wage rate, higher profits, and an increase in the quantity of real GDP supplied.
 - C) a lower real wage rate, lower profits, and a decrease in the quantity of real GDP supplied.
 - D) a lower real wage rate, higher profits, and an increase in the quantity of real GDP supplied.
 - E) no change in the real wage rate and an increase in aggregate demand.

Answer: A

Topic: Aggregate supply, price level

Skill: Level 2: Using definitions

Objective: Checkpoint 29.2

Author: CT

- 13) If the nominal wage rate does not change, then if the price level increases, the real wage rate ____ and profits ____.
- A) rises; increase
 - B) rises; decrease
 - C) falls; increase
 - D) falls; decrease
 - E) does not change; increase

Answer: C

Topic: Aggregate supply, price level

Skill: Level 2: Using definitions

Objective: Checkpoint 29.2

Author: CT

- 14) The quantity of real GDP supplied decreases if the price level ____ because it ____ profits.
- A) rises; increases
 - B) rises; decreases
 - C) falls; increases
 - D) falls; decreases
 - E) None of the above answers are correct because the AS curve is vertical so that the quantity of real GDP supplied does not change when the price level changes.

Answer: D

Topic: Aggregate supply, price level

Skill: Level 2: Using definitions

Objective: Checkpoint 29.2

Author: CT

- 15) If profits are high,
- A) it is likely the result of an increase in the real wage rate.
 - B) new businesses open and the quantity of real GDP supplied increases.
 - C) business failures rise and the quantity of real GDP supplied increases.
 - D) potential GDP must be decreasing.
 - E) the AS curve shifts leftward.

Answer: B

Topic: Aggregate supply, price level

Skill: Level 2: Using definitions

Objective: Checkpoint 29.2

Author: WM

- 16) If the price level rises but the money wage rate does not, then firms will hire ____ labor and the quantity of real GDP supplied will ____.
- A) more; increase
 - B) the same amount of; not change
 - C) less; decrease
 - D) more; not change
 - E) less; increase

Answer: A

Topic: Aggregate supply, price level

Skill: Level 2: Using definitions

Objective: Checkpoint 29.2

Author: WM

- 17) Which of the following changes aggregate supply and shifts the aggregate supply curve?
- i. change in the price level
 - ii. change in potential GDP
 - iii. change in the money wage rate
- A) i only
 - B) ii only.
 - C) iii only.
 - D) ii and iii.
 - E) i, ii, and iii.

Answer: D

Topic: Aggregate supply, price level

Skill: Level 3: Using models

Objective: Checkpoint 29.2

Author: AA

- 18) If there is a rise in the price level, there is ____ in the quantity of real GDP supplied and a movement ____ along the AS curve.
- A) a decrease; downward
 - B) an increase; upward
 - C) an increase; downward
 - D) a decrease; upward
 - E) no change; upward

Answer: B

Topic: Aggregate supply, price level

Skill: Level 2: Using definitions

Objective: Checkpoint 29.2

Author: CT

- 19) Which of the following changes aggregate supply and shifts the AS curve?
- i. a change in the price of a major resource
 - ii. increases in the amount of capital
 - iii. a change in the money income of consumers
- A) i only.
 - B) ii only.
 - C) iii only.
 - D) i and ii.
 - E) i, ii, and iii.

Answer: D

Topic: Changes in aggregate supply

Skill: Level 2: Using definitions

Objective: Checkpoint 29.2

Author: AA

- 20) Which of the following statements is true?
- A) An increase in potential GDP increases aggregate supply and shifts the AS curve leftward.
 - B) A decrease in potential GDP decreases aggregate supply and shifts the AS curve leftward.
 - C) An increase in the money wage rate shifts the AS curve rightward.
 - D) A fall in the price level shifts the AS curve leftward.
 - E) An increase in the money wage rate increases potential GDP.

Answer: B

Topic: Changes in aggregate supply, potential GDP

Skill: Level 2: Using definitions

Objective: Checkpoint 29.2

Author: AA

- 21) The aggregate supply curve shifts rightward when
- A) potential GDP decreases.
 - B) the money wage rate falls.
 - C) income taxes increase.
 - D) government purchases increase.
 - E) the money wage rate rises.

Answer: B

Topic: Changes in aggregate supply, money wage rate

Skill: Level 2: Using definitions

Objective: Checkpoint 29.2

Author: CT

- 22) The aggregate supply curve will shift
- A) rightward if potential GDP decreases.
 - B) rightward if the money wage rate falls.
 - C) rightward if the money wage rate rises.
 - D) leftward if potential GDP increases.
 - E) leftward if the aggregate demand curve shifts leftward.

Answer: B

Topic: Changes in aggregate supply, money wage rate

Skill: Level 2: Using definitions

Objective: Checkpoint 29.2

Author: AA

- 23) If the money wage rate increases, then the
- A) aggregate supply curve shifts rightward.
 - B) potential GDP increases.
 - C) potential GDP decreases.
 - D) aggregate supply curve shifts leftward.
 - E) aggregate demand curve shifts leftward.

Answer: D

Topic: Changes in aggregate supply, money wage rate

Skill: Level 3: Using models

Objective: Checkpoint 29.2

Author: WM

- 24) An increase in technology ____ potential GDP and ____ aggregate supply.
- A) increases; increases
 - B) increases; decreases
 - C) decreases; increases
 - D) decreases; decreases
 - E) does not change; does not change

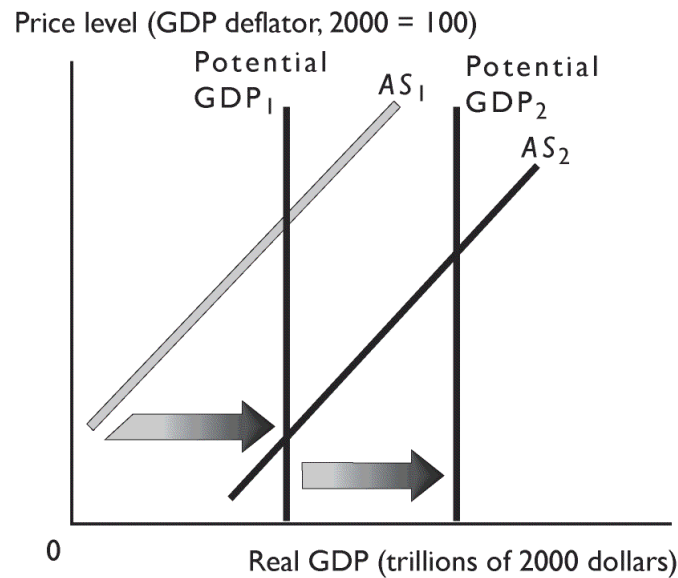
Answer: A

Topic: Changes in aggregate supply, potential GDP

Skill: Level 2: Using definitions

Objective: Checkpoint 29.2

Author: CT



- 25) The change in potential real GDP and aggregate supply shown in the graph above can be a result of
- an increase in the real wage rate.
 - an increase in the quantity of capital.
 - a decrease in the money wage rate.
 - a decrease in the money price of oil.
 - a fall in the price level.

Answer: B

Topic: Changes in aggregate supply, potential GDP

Skill: Level 2: Using definitions

Objective: Checkpoint 29.2

Author: CT

- 26) As the money wage rate increases,
- potential GDP increases.
 - potential GDP decreases.
 - aggregate supply increases.
 - aggregate supply decreases.
 - aggregate supply and potential GDP do not change.

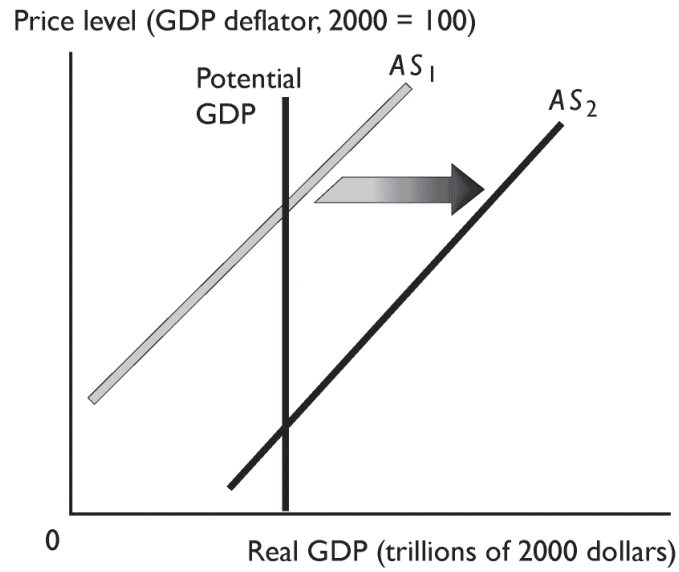
Answer: D

Topic: Changes in aggregate supply, money wage rate

Skill: Level 2: Using definitions

Objective: Checkpoint 29.2

Author: AA



- 27) The change reflected in the above figure might be a result of
- A) a decrease in the money wage rate.
 - B) a decrease in the real wage rate.
 - C) an increase in the money wage rate.
 - D) an increase in the real wage rate.
 - E) a rise in the price level.

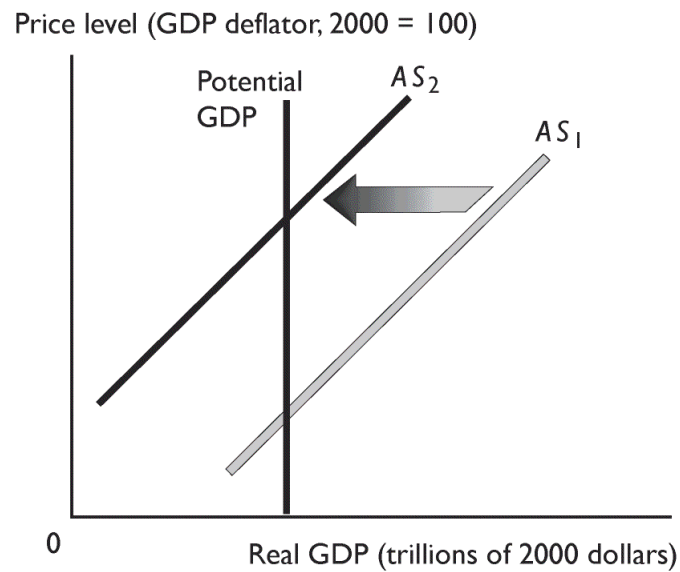
Answer: A

Topic: Changes in aggregate supply, money wage rate

Skill: Level 3: Using models

Objective: Checkpoint 29.2

Author: CT



- 28) The change reflected in the above figure might be a result of
- A) a decrease in the quantity of capital.
 - B) an increase in the quantity of labor.
 - C) a rise in the money wage rate.
 - D) a decrease in the money prices of resources other than labor.
 - E) a fall in the price level.

Answer: C

Topic: Changes in aggregate supply, money wage rate

Skill: Level 3: Using models

Objective: Checkpoint 29.2

Author: CT

29.3 Aggregate Demand

- 1) A rise in the price level
- A) decreases aggregate demand.
 - B) increases aggregate demand.
 - C) decreases the quantity of real GDP demanded.
 - D) increases the quantity of real GDP demanded.
 - E) has no effect on aggregate demand or on the quantity of real GDP demanded.

Answer: C

Topic: Aggregate demand

Skill: Level 1: Definition

Objective: Checkpoint 29.3

Author: TPS

- 2) Which of the following statements is correct?
- A) The price level does not effect the level of real GDP demanded.
 - B) The lower the price level, the greater the quantity of real GDP demanded
 - C) The lower the price level, the more the aggregate demand curve shifts rightward.
 - D) The lower the price level, the more the aggregate demand curve shifts leftward.
 - E) The higher the price level, the more the aggregate demand curve shifts rightward.

Answer: B

Topic: Aggregate demand

Skill: Level 2: Using definitions

Objective: Checkpoint 29.3

Author: WM

- 3) The AD curve is a graph depicting the
- A) relationship between the price level and the quantity of real GDP supplied.
 - B) business cycle during expansions and recessions.
 - C) relationship between the price level and the quantity of real GDP demanded.
 - D) relationship between the price level and potential GDP.
 - E) relationship between the aggregate quantity of real GDP demanded and the aggregate quantity of real GDP supplied.

Answer: C

Topic: Aggregate demand curve

Skill: Level 1: Definition

Objective: Checkpoint 29.3

Author: WM

- 4) An increase in the price level leads to a
- A) rightward shift of the aggregate demand curve.
 - B) leftward shift of the aggregate demand curve.
 - C) movement upward along the aggregate demand curve.
 - D) movement downward along the aggregate demand curve.
 - E) neither a shift in the aggregate demand curve nor a movement along it.

Answer: C

Topic: Aggregate demand curve

Skill: Level 1: Definition

Objective: Checkpoint 29.3

Author: CT

- 5) If the price level increases, there is ____ the AD curve and the quantity of real GDP demanded ____.
- A) a movement upward along; increases
 - B) a movement downward along; increases
 - C) a movement upward along; decreases
 - D) a leftward shift in; decreases
 - E) no change in; does not change

Answer: C

Topic: Aggregate demand curve

Skill: Level 1: Definition

Objective: Checkpoint 29.3

Author: WM

- 6) A rise in the price level ____ the buying power of money and ____ the quantity of real GDP demanded.
- A) does not affect; increases
 - B) lowers; increases
 - C) raises; decreases
 - D) lowers; decreases
 - E) does not affect; does not change

Answer: D

Topic: Buying power of money

Skill: Level 2: Using definitions

Objective: Checkpoint 29.3

Author: WM

- 7) Last year the price level increased from 118 to 122. The increase in the price level leads to a decrease in
- A) the buying power of money.
 - B) the real interest rate.
 - C) the money wage rate.
 - D) the price of domestic goods and services relative to foreign goods and services.
 - E) potential GDP.

Answer: A

Topic: *Buying power of money*

Skill: *Level 2: Using definitions*

Objective: *Checkpoint 29.3*

Author: *CT*

- 8) At a price level of 100, John has savings equal to \$20,000. If the price level increases to 130, the buying power of John's savings is approximately
- A) \$12,780.
 - B) \$15,400.
 - C) \$20,000.
 - D) \$26,000.
 - E) \$30,000.

Answer: B

Topic: *Buying power of money*

Skill: *Level 3: Using models*

Objective: *Checkpoint 29.3*

Author: *CT*

- 9) If the price level doubles, it will
- A) increase the buying power of money.
 - B) have no effect on the buying power of money.
 - C) decrease the buying power of money.
 - D) increase potential GDP.
 - E) decrease potential GDP.

Answer: C

Topic: *Buying power of money*

Skill: *Level 2: Using definitions*

Objective: *Checkpoint 29.3*

Author: *AA*

- 10) When the price level rises and increases the demand for money, the nominal interest rate _____ and the real interest rate _____.
- A) rises; rises
 - B) rises; falls
 - C) falls; rises
 - D) falls; falls
 - E) does not change; does not change

Answer: D

Topic: *Buying power of money*

Skill: *Level 2: Using definitions*

Objective: *Checkpoint 29.3*

Author: *TPS*

- 11) A reason why an increase in the price level decreases the quantity of real GDP demanded is that
- A) the buying power of money increases.
 - B) the real interest rate falls.
 - C) the price of domestic goods and services increases relative to foreign goods and services.
 - D) the inflation rate decreases.
 - E) potential GDP decreases.

Answer: C

Topic: *Relative price of domestic and foreign goods*

Skill: *Level 1: Definition*

Objective: *Checkpoint 29.3*

Author: *CT*

- 12) When the U.S. price level rises relative to other nations' price levels, then
- A) U.S. firms' profits increase and the aggregate demand curve shifts rightward.
 - B) U.S. exports increase and the aggregate demand curve shifts rightward.
 - C) U.S. exports decrease, U.S. imports increase, and the aggregate demand curve shifts leftward.
 - D) U.S. exports decrease, U.S. imports increase, and there is a movement upward along the aggregate demand curve.
 - E) U.S. exports decrease, U.S. imports increase, and the aggregate demand curve shifts rightward.

Answer: D

Topic: *Relative price of domestic and foreign goods*

Skill: *Level 1: Definition*

Objective: *Checkpoint 29.3*

Author: *WM*

- 13) Sherri lives in Canada and is considering buying a new sofa. If the price level in Canada falls and the price level in the United States does not change, Canadian manufactured sofas are relatively
- A) more expensive, so Sherri will likely purchase a U.S. manufactured sofa.
 - B) more expensive, so Sherri will likely purchase a Canadian manufactured sofa.
 - C) less expensive, so Sherri will likely purchase a U.S. manufactured sofa.
 - D) less expensive, so Sherri will likely purchase a Canadian manufactured sofa.
 - E) Both answers B and D could be correct depending on whether U.S. manufactured sofas were initially more expensive or less expensive than Canadian sofas.

Answer: D

Topic: Relative price of domestic and foreign goods

Skill: Level 2: Using definitions

Objective: Checkpoint 29.3

Author: CT

- 14) When the domestic price level increases, exports decrease and imports increase. Other things the same, this change is illustrated by a
- A) movement upward along the aggregate demand curve.
 - B) movement downward along the aggregate demand curve.
 - C) rightward shift of the aggregate demand curve.
 - D) leftward shift of the aggregate demand curve.
 - E) rightward shift of the aggregate supply curve.

Answer: A

Topic: Relative price of domestic and foreign goods

Skill: Level 2: Using definitions

Objective: Checkpoint 29.3

Author: CT

- 15) Aggregate demand
- A) decreases if expected future income rises.
 - B) increases if the exchange rate rises.
 - C) increases if government expenditures decrease.
 - D) increases if the expected inflation rate increases.
 - E) increases if aggregate supply increases.

Answer: D

Topic: Changes in aggregate demand, expectations

Skill: Level 2: Using definitions

Objective: Checkpoint 29.3

Author: AA

- 16) If people's expectations about future income improve so they think their future income will be higher than previously believed, then the *AD* curve
- A) will not change until income actually rises.
 - B) will shift leftward because people will spend less now.
 - C) will shift rightward because people will increase spending now.
 - D) and the *AS* curve will both shift leftward because people will increase their saving.
 - E) will not shift but potential GDP will increase.

Answer: C

Topic: Changes in aggregate demand, expectations

Skill: Level 3: Using models

Objective: Checkpoint 29.3

Author: WM

- 17) If firms' expectations about the future become pessimistic so that they think future profits will be lower, then
- A) aggregate demand decreases and the *AD* curve shifts leftward.
 - B) aggregate demand increases and the *AD* curve shifts rightward.
 - C) the quantity of real GDP demanded decreases and there is a movement up along the *AD* curve.
 - D) the quantity of real GDP demanded increases and there is a movement down along the *AD* curve.
 - E) the aggregate demand curve does not shift but potential GDP decreases.

Answer: A

Topic: Changes in aggregate demand, expectations

Skill: Level 3: Using models

Objective: Checkpoint 29.3

Author: TPS

- 18) Which of the following decreases aggregate demand and shifts the *AD* curve leftward?
- A) a tax cut
 - B) a decrease in price level
 - C) a decrease in government expenditures
 - D) a decrease in the price of exported goods and services
 - E) a decrease in potential GDP

Answer: C

Topic: Changes in aggregate demand, fiscal policy

Skill: Level 2: Using definitions

Objective: Checkpoint 29.3

Author: AA

- 19) An increase in government expenditures on goods and services leads to the
- A) aggregate supply curve shifting rightward.
 - B) aggregate supply curve shifting leftward.
 - C) aggregate demand curve shifting rightward.
 - D) aggregate demand curve shifting leftward.
 - E) potential GDP increasing.

Answer: C

Topic: *Changes in aggregate demand, fiscal policy*

Skill: *Level 3: Using models*

Objective: *Checkpoint 29.3*

Author: *CT*

- 20) A tax increase
- A) decreases aggregate demand and the *AD* curve shifts leftward.
 - B) increases aggregate demand and the *AD* curve shifts rightward.
 - C) decreases the quantity of real GDP demanded and there is a movement up along the *AD* curve.
 - D) increases the quantity of real GDP demanded and there is a movement down along the *AD* curve.
 - E) does not shift or lead to a movement along the aggregate demand curve.

Answer: A

Topic: *Changes in aggregate demand, fiscal policy*

Skill: *Level 3: Using models*

Objective: *Checkpoint 29.3*

Author: *TPS*

- 21) Which of the following decreases aggregate demand and shifts the *AD* curve leftward?
- A) a tax cut
 - B) an interest rate hike
 - C) an increase in quantity of money
 - D) an increase in government expenditures on goods and services
 - E) a decrease in potential GDP.

Answer: B

Topic: *Changes in aggregate demand, monetary policy*

Skill: *Level 2: Using definitions*

Objective: *Checkpoint 29.3*

Author: *AA*

- 22) If the Fed increases the quantity of money, then
- A) aggregate demand decreases and the *AD* curve shifts leftward.
 - B) aggregate demand increases and the *AD* curve shifts rightward.
 - C) the quantity of real GDP demanded decreases and there is a movement up along the *AD* curve.
 - D) the quantity of real GDP demanded increases and there is a movement down along the *AD* curve.
 - E) both the aggregate demand curve and the aggregate supply curve shift leftward.

Answer: B

Topic: Changes in aggregate demand, monetary policy

Skill: Level 3: Using models

Objective: Checkpoint 29.3

Author: TPS

- 23) Which of the following statements is correct?
- A) An increase in the price level shifts the aggregate demand curve rightward.
 - B) An increase in the price level shifts the aggregate demand curve leftward.
 - C) An increase in the quantity of the money shifts the aggregate demand curve rightward.
 - D) An increase in the real interest rate shifts the aggregate demand curve rightward.
 - E) An increase in the money wage rate shifts the aggregate demand curve leftward.

Answer: C

Topic: Aggregate demand curve

Skill: Level 2: Using definitions

Objective: Checkpoint 29.3

Author: AA

- 24) One of the influences that the world economy has on U.S. aggregate demand comes from changes in
- A) world opinion.
 - B) foreign income.
 - C) foreign governments.
 - D) world pollution.
 - E) foreign aid.

Answer: B

Topic: Changes in aggregate demand, foreign income

Skill: Level 2: Using definitions

Objective: Checkpoint 29.3

Author: AA

- 25) If European economies enter a recession,
- A) U.S. aggregate demand decreases and the U.S. *AD* curve shifts leftward.
 - B) U.S. aggregate demand increases and the U.S. *AD* curve shifts rightward.
 - C) the quantity of real GDP demanded in the United States decreases and there is a movement down along the U.S. *AD* curve.
 - D) the quantity of real GDP demanded in the United States increases and there is a movement up along the U.S. *AD* curve.
 - E) U.S. aggregate demand decreases and the U.S. *AD* curve shifts rightward.

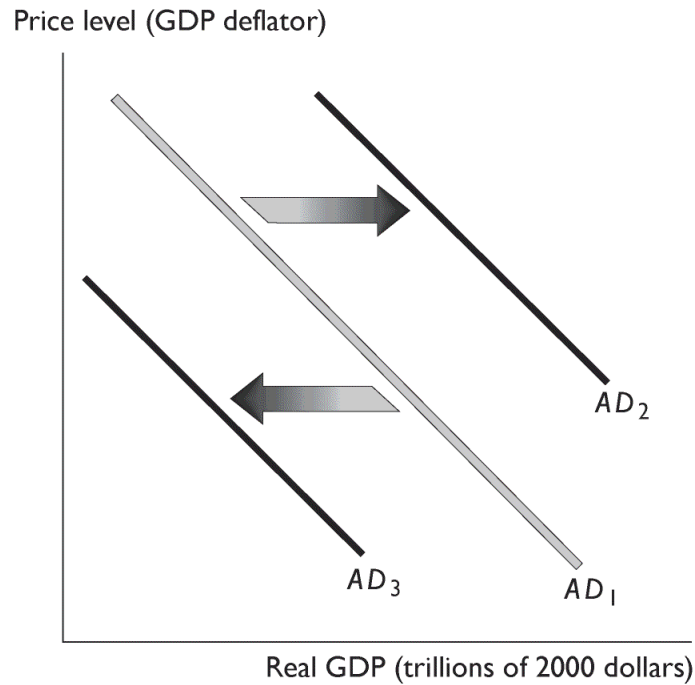
Answer: A

Topic: Changes in aggregate demand, foreign income

Skill: Level 3: Using models

Objective: Checkpoint 29.3

Author: TPS



- 26) In the figure above, as the price level increases the aggregate demand curve will
- A) shift from AD_1 to AD_3 .
 - B) shift from AD_1 to AD_2 .
 - C) not shift but the aggregate demand curve will change its slope will change so that it is positively sloped.
 - D) not shift.
 - E) shift from AD_1 to AD_3 and then back to AD_1 .

Answer: D

Topic: Aggregate demand curve

Skill: Level 3: Using models

Objective: Checkpoint 29.3

Author: AA

- 27) In the figure above, the shift in the aggregate demand curve from AD_1 to AD_2 could be result of
- A) a fall in the price level.
 - B) a decrease in the quantity of money.
 - C) an increase in government expenditures on goods and services.
 - D) an increase in taxes.
 - E) a rise in the price level.

Answer: C

Topic: Changes in aggregate demand, fiscal policy

Skill: Level 3: Using models

Objective: Checkpoint 29.3

Author: AA

- 28) In the figure above, the shift in the aggregate demand curve from AD_1 to AD_3 could be the result of
- A) a decrease in the real interest rate.
 - B) a decrease in the buying power of money.
 - C) an increased expectation of a recession that lowers the expected rate of profit from investment.
 - D) a decrease in the foreign exchange rate.
 - E) an increase in the price level.

Answer: C

Topic: Changes in aggregate demand, fiscal policy

Skill: Level 3: Using models

Objective: Checkpoint 29.3

Author: CT

- 29) In the figure above, the shift in the aggregate demand curve from AD_1 to AD_3 could be the result of an increase in
- A) expected future income.
 - B) the foreign exchange rate.
 - C) foreign incomes.
 - D) the price level.
 - E) aggregate supply.

Answer: B

Topic: Changes in aggregate demand, foreign exchange rate

Skill: Level 3: Using models

Objective: Checkpoint 29.3

Author: AA

- 30) The aggregate demand multiplier effect says that an initial increase in expenditure plans leads to an induced
- A) increase in consumption expenditure.
 - B) increase in production expenditure.
 - C) increase in government expenditures on goods and services.
 - D) decrease in the price level.
 - E) increase in exports.

Answer: A

Topic: Aggregate demand multiplier

Skill: Level 3: Using models

Objective: Checkpoint 29.3

Author: CT

29.4 Understanding the Business Cycle

- 1) When the quantity of real GDP demanded exceeds the quantity of real GDP supplied, firms
- A) increase production and prices.
 - B) decrease production and prices.
 - C) increase production and lower prices.
 - D) decrease production and increase prices.
 - E) do not change production because aggregate demand and potential GDP will adjust.

Answer: A

Topic: Macroeconomic equilibrium

Skill: Level 2: Using definitions

Objective: Checkpoint 29.4

Author: CT

- 2) According to the AS-AD model
- A) the aggregate quantity supplied is typically greater than the aggregate quantity demanded, thereby leading to unemployment.
 - B) the equilibrium is where the AS curve crosses the AD curve but the amount of real GDP at this point is not always equal to potential GDP.
 - C) the aggregate quantity demanded is typically greater than the aggregate quantity supplied, thereby leading to inflation.
 - D) the AS curve is always equal to potential GDP.
 - E) changes in the amount of potential GDP is the only factor that shifts *both* the aggregate supply curve and the aggregate demand curve.

Answer: B

Topic: Macroeconomic equilibrium

Skill: Level 3: Using models

Objective: Checkpoint 29.4

Author: WM

Price level (GDP deflator)	Real GDP demanded (trillions of 2000 dollars)	Real GDP supplied (trillions of 2000 dollars)
80	10	2
90	9	4
100	8	6
110	7	7
120	6	8
130	4	9

- 3) The above table gives aggregate demand and aggregate supply schedules. Equilibrium real GDP is
- A) \$10 trillion.
 - B) \$9 trillion.
 - C) \$8 trillion.
 - D) \$7 trillion.
 - E) \$6 trillion.

Answer: D

Topic: Equilibrium AD and AS

Skill: Level 3: Using models

Objective: Checkpoint 29.4

Author: AA

- 4) The above table gives aggregate demand and aggregate supply schedules. The equilibrium price level is
- A) 130.
 - B) 120.
 - C) 110.
 - D) 100.
 - E) 90.

Answer: C

Topic: Equilibrium AD and AS

Skill: Level 3: Using models

Objective: Checkpoint 29.4

Author: AA

- 5) The above table gives aggregate demand and aggregate supply schedules. If the price level is 120 then the aggregate quantity demanded is ____ than the aggregate quantity supplied and the price level ____.
- A) greater; rises
 - B) greater; falls
 - C) less; rises
 - D) less; falls
 - E) less; might fall, rise or not change depending on whether real GDP is more than, less than, or equal to potential GDP.

Answer: D

Topic: Equilibrium AD and AS

Skill: Level 3: Using models

Objective: Checkpoint 29.4

Author: AA

- 6) A decrease in investment leads to ____ in aggregate demand and ____ in real GDP.
- A) an increase; an increase
 - B) an increase; a decrease
 - C) a decrease; an increase
 - D) a decrease; a decrease
 - E) no change; a decrease

Answer: D

Topic: Aggregate demand fluctuations

Skill: Level 2: Using definitions

Objective: Checkpoint 29.4

Author: CT

- 7) A deep recession hits the world economy and real GDP in the rest of the world decreases. In the United States,
- A) aggregate supply and aggregate demand both increase and the price level rises.
 - B) aggregate supply decreases while aggregate demand does not change and the price level rises.
 - C) aggregate demand decreases while aggregate supply does not change and the price level falls.
 - D) aggregate supply increases and aggregate demand decreases, so the effect on the price level is uncertain.
 - E) aggregate supply and aggregate demand both decrease and the price level rises.

Answer: C

Topic: Aggregate demand fluctuations

Skill: Level 3: Using models

Objective: Checkpoint 29.4

Author: AA

- 8) If the AD curve shifts rightward, then
- A) both the price level and real GDP will increase.
 - B) the price level will increase but no change will occur in real GDP.
 - C) the price level will not change but real GDP will increase.
 - D) both the price level and real GDP will decrease.
 - E) potential GDP increases.

Answer: A

Topic: Aggregate demand fluctuations

Skill: Level 3: Using models

Objective: Checkpoint 29.4

Author: WM

- 9) An economy is at a full-employment equilibrium, and then the aggregate demand curve shifts leftward. As a result, the price level ____ and real GDP ____.
- A) rises; increases
 - B) rises; decreases
 - C) falls; increases
 - D) falls; decreases
 - E) falls; does not change

Answer: D

Topic: Aggregate demand fluctuations

Skill: Level 3: Using models

Objective: Checkpoint 29.4

Author: CT

- 10) If the *AD* curve shifts rightward while the *AS* curve and potential GDP don't change, then
- A) the economy will move from a peak into recession.
 - B) the expansion phase of the business cycle occurs.
 - C) there will be no change in real GDP, so the economy is at the peak of the cycle.
 - D) there will be no change in real GDP, so the economy is at the trough of the cycle.
 - E) real GDP does not change.

Answer: B

Topic: Aggregate demand fluctuations

Skill: Level 3: Using models

Objective: Checkpoint 29.4

Author: WM

- 11) Real GDP definitely increases if
- A) both the *AD* curve and the *AS* curve shift rightward.
 - B) both the *AD* curve and *AS* curve shift leftward.
 - C) the *AD* curve shifts leftward and the *AS* curve shifts rightward.
 - D) the *AS* curve shifts leftward and the *AD* curve does not shift.
 - E) potential GDP decreases so that real GDP exceeds potential GDP.

Answer: A

Topic: Aggregate demand and supply fluctuations

Skill: Level 3: Using models

Objective: Checkpoint 29.4

Author: WM

- 12) Stagflation is defined as a period when real GDP ____ and the price level ____.
- A) increases; increases
 - B) increases; decreases
 - C) decreases; increases
 - D) decreases; decreases
 - E) is constant; rises rapidly

Answer: C

Topic: Stagflation

Skill: Level 1: Definition

Objective: Checkpoint 29.4

Author: WM

- 13) A combination of declining real GDP and rising price level is referred to as
- A) an expansion.
 - B) a trough.
 - C) stagflation.
 - D) deflation.
 - E) a depression.

Answer: C

Topic: Stagflation

Skill: Level 1: Definition

Objective: Checkpoint 29.4

Author: CT

- 14) In the United States, stagflation
- A) occurs regularly, such as throughout the 1990s.
 - B) occurs infrequently and occurred last in the late 1970s and early 1980s.
 - C) has never occurred, but did occur in South America in the late 1970s and early 1980s.
 - D) is caused by large increases in aggregate demand that are the result of large decreases in interest rates.
 - E) is caused by decreases in aggregate demand that are the result of large decreases in interest rates.

Answer: B

Topic: Stagflation

Skill: Level 2: Using definitions

Objective: Checkpoint 29.4

Author: WM

- 15) The combination of recession and inflation
- A) cannot occur according to our model.
 - B) occurred during the 1990s.
 - C) happens at least once during each business cycle in the United States.
 - D) last occurred as a result of large increases in the price of oil.
 - E) is the result of increases in aggregate demand.

Answer: D

Topic: Stagflation

Skill: Level 3: Using models

Objective: Checkpoint 29.4

Author: WM

- 16) If real GDP exceeds potential GDP, then the money wage rate ____, aggregate supply ____, and the price level ____.
- A) rises; decreases; rises
 - B) falls; decreases; rises
 - C) rises; increases; falls
 - D) falls; increases; rises
 - E) does not change; increases; rises

Answer: A

Topic: Inflationary gap

Skill: Level 2: Using definitions

Objective: Checkpoint 29.4

Author: AA

- 17) If real GDP is greater than potential GDP, then ____ and the price level ____.
- A) the aggregate demand curve shifts leftward; rises
 - B) the aggregate demand curve shifts rightward; falls
 - C) the aggregate supply curve shifts leftward; rises
 - D) the aggregate supply curve shifts rightward; falls
 - E) potential GDP increases; falls

Answer: C

Topic: Inflationary gap

Skill: Level 2: Using definitions

Objective: Checkpoint 29.4

Author: AA

- 18) If the aggregate demand curve and the aggregate supply curve intersect at a level of real GDP more than potential GDP, there is
- A) a recessionary gap.
 - B) an inflationary gap.
 - C) a falling price level.
 - D) a rising real GDP.
 - E) a below-full employment equilibrium.

Answer: B

Topic: Inflationary gap

Skill: Level 2: Using definitions

Objective: Checkpoint 29.4

Author: TPS

- 19) If real GDP is less than potential GDP, then the money wage rate ____, aggregate supply ____, and the price level ____.
- A) rises; decreases; rises
 - B) falls; increases; falls
 - C) rises; increases; falls
 - D) falls; decreases; rises
 - E) does not change; increases; falls

Answer: B

Topic: *Recessionary gap*

Skill: *Level 2: Using definitions*

Objective: *Checkpoint 29.4*

Author: *AA*

- 20) If real GDP is less than potential GDP, then the ____ and the price level ____.
- A) aggregate demand curve shifts leftward; rises
 - B) aggregate demand curve shifts rightward; falls
 - C) aggregate supply curve shifts leftward; rises
 - D) aggregate supply curve shifts rightward; falls
 - E) amount of potential GDP increases; falls

Answer: D

Topic: *Recessionary gap*

Skill: *Level 2: Using definitions*

Objective: *Checkpoint 29.4*

Author: *AA*

- 21) A recessionary gap occurs when ____ so that real GDP is ____ potential GDP.
- A) aggregate supply increases; less than
 - B) aggregate supply decreases; less than
 - C) aggregate demand increases; greater than
 - D) aggregate demand decreases; less than
 - E) potential GDP decreases; greater than

Answer: D

Topic: *Recessionary gap*

Skill: *Level 2: Using definitions*

Objective: *Checkpoint 29.4*

Author: *CT*

- 22) If the aggregate demand curve and the aggregate supply curve intersect at a level of real GDP less than potential GDP, there is
- A) a recessionary gap.
 - B) an inflationary gap.
 - C) a rising price level.
 - D) a falling real GDP.
 - E) an above full-employment equilibrium.

Answer: A

Topic: Recessionary gap

Skill: Level 2: Using definitions

Objective: Checkpoint 29.4

Author: TPS

- 23) An economy experiences a recessionary gap. As a result, the money wage rate
- A) falls, shifting the aggregate supply curve rightward.
 - B) rises, shifting the aggregate supply curve leftward.
 - C) rises, shifting the aggregate demand curve rightward.
 - D) falls, shifting the aggregate demand curve leftward.
 - E) falls, increasing potential GDP.

Answer: A

Topic: Recessionary gap

Skill: Level 2: Using definitions

Objective: Checkpoint 29.4

Author: CT

- 24) If the economy is above full employment, there is ____ gap and as the economy adjusts toward full employment the price level ____.
- A) an inflationary; rises
 - B) an inflationary; falls
 - C) a recessionary; rises
 - D) a recessionary; falls
 - E) an inflationary; does not change

Answer: A

Topic: Adjustment to full employment

Skill: Level 3: Using models

Objective: Checkpoint 29.4

Author: WM

- 25) If the economy begins at full employment and then aggregate demand decreases,
- A) potential GDP decreases to fill the resultant deflationary gap.
 - B) a recessionary gap is created and the *AS* curve shifts rightward as the money wage rate falls.
 - C) a recessionary gap is created shifting the *AD* curve rightward.
 - D) an inflationary gap is created shifting the *AS* curve leftward as the money wage rate rises.
 - E) an inflationary gap is created shifting the *AD* curve rightward.

Answer: B

Topic: *Adjustment to full employment*

Skill: *Level 3: Using models*

Objective: *Checkpoint 29.4*

Author: *WM*

- 26) Assume the economy is hit by a shock that decreases aggregate demand. When the economy has finally adjusted to full employment,
- A) only the level of real GDP will be affected.
 - B) there will be no changes to either the price level or real GDP.
 - C) only the price level will be affected.
 - D) both real GDP and the price level will be affected.
 - E) aggregate supply will not have changed.

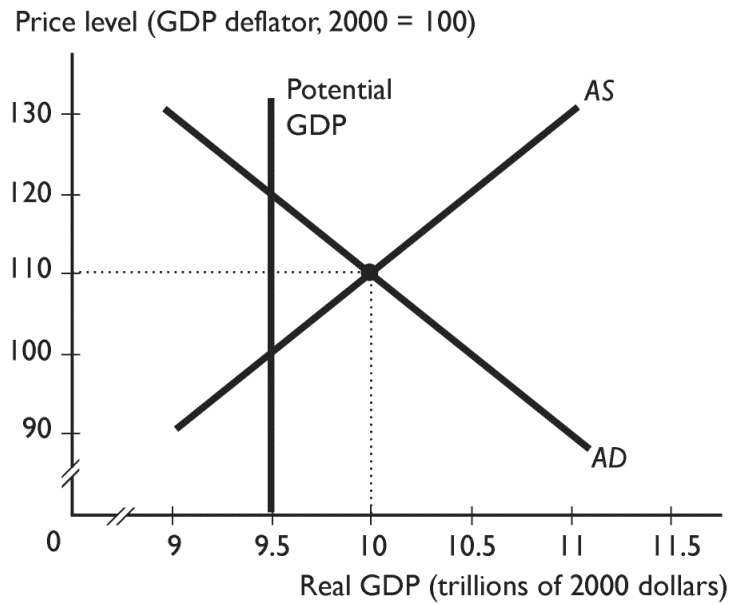
Answer: C

Topic: *Adjustment to full employment*

Skill: *Level 3: Using models*

Objective: *Checkpoint 29.4*

Author: *WM*



- 27) In the figure above, the economy is at an equilibrium with real GDP of \$10 trillion and a price level of 110. At this point there is
- A) an inflationary gap.
 - B) a recessionary gap.
 - C) price stability.
 - D) a full-employment equilibrium.
 - E) a below full-employment equilibrium.

Answer: A

Topic: Inflationary gap

Skill: Level 1: Definition

Objective: Checkpoint 29.4

Author: AA

- 28) In the figure above, the economy is at an equilibrium with real GDP of \$10 trillion and a price level of 110. As the economy moves toward its ultimate equilibrium, the ____ curve will shift ____.
- A) aggregate supply; leftward
 - B) aggregate supply; rightward
 - C) aggregate demand; rightward
 - D) aggregate demand; leftward
 - E) potential GDP; rightward

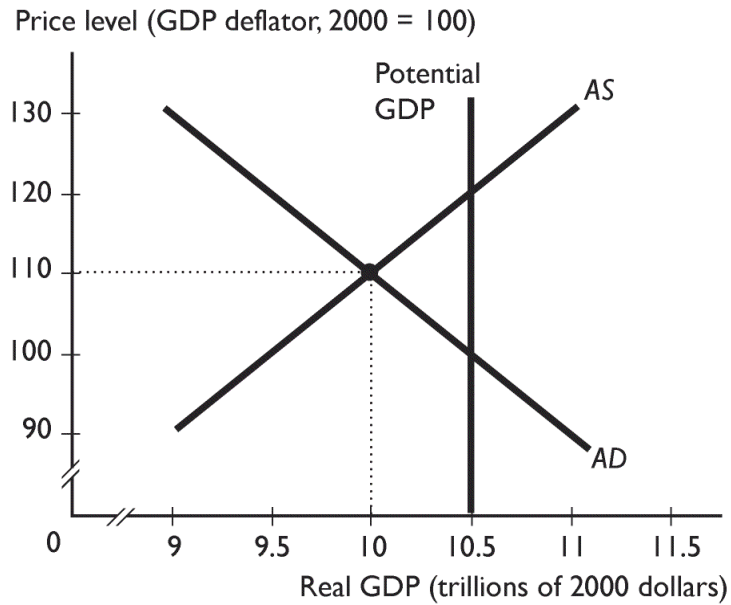
Answer: A

Topic: *Adjustment to full employment*

Skill: *Level 3: Using models*

Objective: *Checkpoint 29.4*

Author: *AA*



- 29) In the figure above, the economy is at an equilibrium with real GDP of \$10 trillion and a price level of 110. At this point there is
- A) an inflationary gap.
 - B) a recessionary gap.
 - C) price stability.
 - D) a full-employment equilibrium.
 - E) an above full-employment equilibrium.

Answer: B

Topic: Recessionary gap

Skill: Level 1: Definition

Objective: Checkpoint 29.4

Author: AA

- 30) In the figure above, the economy is at an equilibrium with real GDP of \$10 trillion and a price level of 110. As the economy moves toward its ultimate equilibrium, the ____ curve shifts ____.
- A) aggregate supply; leftward
 - B) aggregate supply; rightward
 - C) aggregate demand; rightward
 - D) aggregate demand; leftward
 - E) potential GDP; leftward

Answer: B

Topic: *Adjustment to full employment*

Skill: *Level 3: Using models*

Objective: *Checkpoint 29.4*

Author: AA

- 31) As a result of OPEC ____ oil prices in 1973 and 1980, real GDP in United States ____.
- A) increasing; increased
 - B) increasing; decreased
 - C) decreasing; increased
 - D) decreasing; decreased
 - E) increasing; did not change

Answer: B

Topic: *Eye on the past, oil price cycles in U.S. & global economies*

Skill: *Level 2: Using definitions*

Objective: *Checkpoint 29.4*

Author: AA

- 32) When OPEC nearly tripled the price of oil in late 1973
- A) U.S. real GDP increased as profits by oil producers increased.
 - B) U.S. real GDP did not change although the price level rose.
 - C) the U.S. price level fell because production became too expensive.
 - D) the U.S. price level rose and real GDP decreased.
 - E) both U.S. real GDP and the price level increased.

Answer: D

Topic: *Eye on the past, oil price cycles in U.S. & global economies*

Skill: *Level 2: Using definitions*

Objective: *Checkpoint 29.4*

Author: WM

- 33) At the beginning of 2007, a country is at full-employment. During 2007, oil-producing countries decrease oil production leading to higher oil prices. The higher oil prices
- A) increase aggregate demand and lead to an expansion.
 - B) increase aggregate supply and lead to an expansion.
 - C) decrease aggregate demand and lead to a stagflation.
 - D) decrease aggregate supply and lead to a stagflation.
 - E) decrease aggregate demand and lead to a higher price level.

Answer: D

Topic: Eye on the past, oil price cycles in U.S. & global economies

Skill: Level 3: Using models

Objective: Checkpoint 29.4

Author: CT

29.5 Integrative Questions

- 1) An increase in the price level ____ the aggregate quantity supplied and ____ the aggregate quantity demanded.
- A) increases; increases
 - B) increases; decreases
 - C) decreases; increases
 - D) decreases; decreases
 - E) does not change; decreases

Answer: B

Topic: Integrative

Skill: Level 3: Using models

Objective: Integrative

Author: AA

- 2) During the late 1960s, U.S. defense spending increased as the United States fought in Vietnam. This increase in government expenditures on goods and services created
- A) a recessionary gap.
 - B) an inflationary gap.
 - C) a decrease in aggregate supply.
 - D) a decrease in aggregate demand because consumers' expenditures decreased.
 - E) an increase in potential GDP.

Answer: B

Topic: Integrative

Skill: Level 4: Applying models

Objective: Integrative

Author: TPS

- 3) A recession in the rest of the world means U.S.
- A) aggregate supply decreases.
 - B) aggregate demand decreases.
 - C) potential GDP decreases.
 - D) exports increase.
 - E) potential GDP increases.

Answer: B

Topic: *Integrative*

Skill: *Level 4: Applying models*

Objective: *Integrative*

Author: TPS

- 4) ____ increases potential GDP.
- A) A decrease in the money wage rate
 - B) A recessionary gap
 - C) A recession
 - D) An increase in the amount of human capital
 - E) An increase in aggregate demand

Answer: D

Topic: *Integrative*

Skill: *Level 4: Applying models*

Objective: *Integrative*

Author: TPS

- 5) Unemployment increases when
- A) an inflationary gap is created.
 - B) potential GDP increases.
 - C) the government decreases its expenditures on goods and services.
 - D) aggregate demand increases.
 - E) aggregate supply increases.

Answer: C

Topic: *Integrative*

Skill: *Level 4: Applying models*

Objective: *Integrative*

Author: TPS

- 6) In the late 1920s, the U.S. economy experienced a decrease in investment, which perhaps triggered the Great Depression. The decrease in investment
- A) increased aggregate supply.
 - B) decreased aggregate supply.
 - C) increased aggregate demand.
 - D) decreased aggregate demand.
 - E) increased potential GDP.

Answer: D

Topic: Integrative

Skill: Level 4: Applying models

Objective: Integrative

Author: TPS

