Multiple Choice
Identify the choice that best completes the statement or answers the question.

1. Assume the aggregate supply curve is upward sloping and the economy is in a recession. If the government increases both taxes and government spending by $25 billion, the price level and real GDP will most likely change in which of the following ways?

<table>
<thead>
<tr>
<th>Price Level</th>
<th>Real GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Increase</td>
<td>Increase</td>
</tr>
<tr>
<td>b. Increase</td>
<td>Decrease</td>
</tr>
<tr>
<td>c. Increase</td>
<td>No change</td>
</tr>
<tr>
<td>d. Decrease</td>
<td>Decrease</td>
</tr>
<tr>
<td>e. Decrease</td>
<td>No change</td>
</tr>
</tbody>
</table>

2. Which of the following best explains why equilibrium income will rise by more than $100 in response to a $100 increase in government spending?
   a. Incomes will rise, resulting in a tax decrease.
   b. Incomes will rise, resulting in higher consumption.
   c. The increased spending raises the aggregate price level.
   d. The increased spending increases the money supply, lowering real interest rates.
   e. The higher budget deficit reduces investment.

3. Which of the following best explains how an economy could simultaneously experience high inflation and high unemployment?
   a. The government increases spending without increasing taxes.
   b. The government increases taxes without increasing spending.
   c. Inflationary expectations decline.
   d. Women and teenagers enter the labor force.
   e. Negative supply shocks cause resource prices to increase.

4. If Janet Yellen’s disposable income increases from $600 to $700 and her level of personal consumption expenditures increases from $450 to $475. You may conclude that her marginal propensity to consume is
   a. 0.1
   b. 0.25
   c. 0.5
   d. 0.75
   e. 1

5. A decrease in lump-sum personal income taxes will most likely result in an increase in real GDP because which of the following occurs?
   I. Government spending decreases to maintain a balanced budget.
   II. Consumption spending increases because disposable personal income increases.
   III. Investment spending decreases because disposable personal income increases.
   a. I only
   b. II only
   c. III only
   d. I and III only
6. In order to be called an automatic stabilizer, which of the following must **government spending** automatically do during a recessionary or an inflationary period?

<table>
<thead>
<tr>
<th>Recessionary Period</th>
<th>Inflationary Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Decrease</td>
<td>Decrease</td>
</tr>
<tr>
<td>b. Decrease</td>
<td>Increase</td>
</tr>
<tr>
<td>c. Increase</td>
<td>Decrease</td>
</tr>
<tr>
<td>d. Increase</td>
<td>Increase</td>
</tr>
<tr>
<td>e. No change</td>
<td>No change</td>
</tr>
</tbody>
</table>

7. Assume that the short-run aggregate supply curve decreases. What is the impact on the short run Phillips curve?

a. It will shift left.
b. It will shift right.
c. There will be movement along the curve to the left.
d. There will be movement along the curve to the right.
e. The curve will not change.

8. A **leftward** shift in the aggregate demand curve with a horizontal aggregate supply curve will cause employment and the price level to change in which of the following ways?

<table>
<thead>
<tr>
<th>Employment</th>
<th>Price Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Increase</td>
<td>Increase</td>
</tr>
<tr>
<td>b. Increase</td>
<td>Decrease</td>
</tr>
<tr>
<td>c. Increase</td>
<td>No change</td>
</tr>
<tr>
<td>d. Decrease</td>
<td>No change</td>
</tr>
<tr>
<td>e. No change</td>
<td>No change</td>
</tr>
</tbody>
</table>

9. In which of the following ways will a decrease in short-run aggregate supply change the price level and unemployment?

<table>
<thead>
<tr>
<th>Price Level</th>
<th>Unemployment</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Increase</td>
<td>Decrease</td>
</tr>
<tr>
<td>b. Decrease</td>
<td>Decrease</td>
</tr>
<tr>
<td>c. Decrease</td>
<td>Increase</td>
</tr>
<tr>
<td>d. Decrease</td>
<td>No change</td>
</tr>
<tr>
<td>e. No change</td>
<td>Increase</td>
</tr>
</tbody>
</table>

10. Which of the following correctly describes how income groups are affected by sales taxes?

a. High income consumers suffer the most because sales taxes are progressive.
b. Low income consumers suffer the most because sales taxes are regressive.
c. All income groups pay the same percentage so the tax is proportional.
d. Sales taxes are inherently designed to ensure that all people pay the same percentage in taxes.

11. The value of the spending multiplier increases when

a. tax rates are reduced
b. exports decline
c. imports decline
d. government spending increases
e. the marginal propensity to save decreases
12. A rapid increase in successful research and development projects for the nation will most likely result in which of the following changes in the short-run and long-run aggregate supply curves and production possibilities curves?

<table>
<thead>
<tr>
<th>SRAS</th>
<th>LRAS</th>
<th>PPC</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Decrease</td>
<td>No change</td>
<td>No change</td>
</tr>
<tr>
<td>b. Decrease</td>
<td>Decrease</td>
<td>Shift inward</td>
</tr>
<tr>
<td>c. Increase</td>
<td>No change</td>
<td>Shift inward</td>
</tr>
<tr>
<td>d. Increase</td>
<td>Increase</td>
<td>No change</td>
</tr>
<tr>
<td>e. Increase</td>
<td>Increase</td>
<td>Shift outward</td>
</tr>
</tbody>
</table>

13. In response to an increase in government spending of $10 billion, gross domestic product rises by a total of $20 billion. The marginal propensity to save is

a. 0.1
b. 0.2
c. 0.5
d. 0.8
e. 0.9

14. An increase in the stock of capital goods will cause the

a. aggregate demand curve to shift leftward.
b. production possibilities curve to shift in.
c. Phillips curve to shift out.
d. long-run aggregate supply curve to shift rightward.
e. consumption function to shift down.

15. If the primary goal is to reduce inflation, which of the following fiscal policy actions would be appropriate during a rapidly increasing consumer price index?

I. Reduce government expenditures for defense and space research.
II. Increase transfer payments to those most severely affected by the rising price index.
III. Increase personal income tax rates.

a. I only
b. II only
c. III only
d. I and III only
e. II and III only

16. Assume there is a decrease in aggregate demand in an economy. How would this affect inflation and unemployment?

a. Prices will rise; Unemployment will fall.
b. Prices will fall; Unemployment will rise.
c. Prices will rise; Unemployment will rise.
d. Prices will fall. Unemployment will fall.
17. Which of the following will occur as a result of an improvement in technology?
   a. The aggregate demand curve will shift to the right.
   b. The aggregate demand curve will shift to the left.
   c. The aggregate supply curve will shift to the right.
   d. The aggregate supply curve will shift to the left.
   e. The production possibilities curve will shift inward.

18. Which of the following best describes the relationship between government budget deficits and the national debt?
   a. Budget deficits lead to a decrease in the national debt.
   b. Budget deficits lead to an increase in the national debt.
   c. A national debt makes budget deficits less likely.
   d. As the national debt expands, budget deficits are reduced significantly.

19. Which of the following fiscal policy actions would be most effective in combatting inflation?

<table>
<thead>
<tr>
<th>Taxes</th>
<th>Government Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>$25 billion decrease</td>
<td>$25 billion decrease</td>
</tr>
<tr>
<td>$25 billion decrease</td>
<td>$25 billion increase</td>
</tr>
<tr>
<td>$25 billion decrease</td>
<td>No change</td>
</tr>
<tr>
<td>$25 billion increase</td>
<td>$25 billion decrease</td>
</tr>
<tr>
<td>$25 billion increase</td>
<td>$25 billion increase</td>
</tr>
</tbody>
</table>

20. Crowding out due to government borrowing occurs when
   a. lower interest rates increase private sector investment
   b. lower interest rates decrease private sector investment
   c. higher interest rates decrease private sector investment
   d. a smaller money supply increases private sector investment
   e. a larger money supply increases private sector investment

Key:
1. A
2. B
3. E
4. B
5. B
6. C
7. B
8. D
9. A
10. B
11. E
12. E
13. C
14. D
15. D
16. B
17. C
18. B
19. D
20. C
AP Macroeconomics AS/AD and Fiscal Policy Test

Answer Section

MULTIPLE CHOICE

1. ANS: A        PTS: 1
2. ANS: B        PTS: 1
3. ANS: E        PTS: 1
4. ANS: B        PTS: 1
5. ANS: B        PTS: 1
6. ANS: C        PTS: 1
7. ANS: B        PTS: 1
8. ANS: D        PTS: 1
9. ANS: A        PTS: 1
10. ANS: B       PTS: 1
11. ANS: E       PTS: 1
12. ANS: E       PTS: 1
13. ANS: C       PTS: 1
14. ANS: D       PTS: 1
15. ANS: D       PTS: 1
16. ANS: B       PTS: 1
17. ANS: C       PTS: 1
18. ANS: B       PTS: 1
19. ANS: D       PTS: 1
20. ANS: C       PTS: 1