1. According to the modern quantity theory, changes in aggregate spending are primarily due to:
   1. consumption changes.
   2. interest rate changes.
   3. ***money supply changes.***
   4. investment changes.
2. Economist who subscribe to hysteresis believe
   1. Government should not engage in attempts to increase employment
   2. The self-correcting mechanism will return the economy to the full employment level
   3. ***A high level of unemployment may become permanent***
   4. The natural rate level of unemployment and output are always at full employment
3. The short-run aggregate supply curve is upward sloping because:
   1. ***price increases increase profit opportunities which result in more production.***
   2. price increases reduce the real money supply, increasing production.
   3. price decreases increase the real money supply, increasing spending and production.
   4. price increases increase consumption, creating more production.
4. An increase in production costs (not wages) will:
   1. shift AS to the right.
   2. ***shift AS to the left.***
   3. shift AD to the left.
   4. shift AD to the right.
5. If Y > YN, then:
   1. ***wages will rise and shift AS right, decreasing Y.***
   2. wages will fall and shift AS left, decreasing Y.
   3. wages will rise and shift AS left, decreasing Y.
   4. wages will fall and shift AS right, decreasing Y.
6. An increase in the money supply will do all the following except:
   1. increase Y in the short-run.
   2. increase investment spending
   3. ***increase Y in the long-run.***
   4. increase the price level in the short-run.
7. Which of the following will not shift short-run aggregate supply left?
   1. An increase in the expected price level.
   2. ***A new cost-reducing production technology.***
   3. An decrease in the wage rate.
   4. Unusually good weather.
8. A negative supply shock which does not change AD or long-run supply will:
   1. **temporarily lower output and increase prices.**
   2. permanently lower output and increase prices.
   3. permanently lower output and lower prices.
   4. temporarily lower output and lower prices.
9. An increase in capital stock, which shifts long-run supply out, will:
   1. ***lower prices and increase output.***
   2. increase prices and not change output.
   3. increase prices and increase output.
   4. lower prices and not change output.
10. If over time prices and output both have risen, then
    1. AD must have increased less than long-run supply increased.
    2. AD must have increased as much as long-run supply increased.
    3. ***AD must have increased more than long-run supply increased.***
    4. Long-run supply must have decreased more than AD increased.
11. The Quantity Theory of Money and the component approach to AD agree that a change in \_\_\_\_\_\_\_\_ can shift the aggregate demand curve.
    1. ***money supply***
    2. planned investment spending
    3. animal spirits
    4. fiscal policy
12. The long-run supply curve is:
    1. ***vertical***.
    2. horizontal.
    3. downward-sloping.
    4. upward-sloping.
13. According to real business cycle theory, short-run economic fluctuations are caused by changes in:
    1. fiscal policy.
    2. ***the natural rate level of output.***
    3. high unemployment.
    4. the money supply.
14. The economic meaning of "In the long run, we are all dead" is
    1. Over a long period of time we will all experience periods of unemployment and inability to pay the bills
    2. ***Over time, the self-correcting mechanism may work but is it very slow and the economy can't afford to wait***
    3. Over time, the self-correcting mechanism will work and employees will get their jobs back
    4. Over time, we will all die and should invest to pay for our burial
15. The self-correcting mechanism of the economy explains why
    1. Fiscal policy cannot increase aggregate demand in the short run.
    2. The natural rate of output changes to eliminate unemployment.
    3. ***Wages and prices adjust to return the economy to full employment.***
    4. The economy will not sustain inflation.