FISCAL MONETARY MIX PRACTICE QUESTIONS

1. One policy dilemma posed by cost-push inflation is that:
   A) an increase in aggregate demand will increase inflation and the unemployment rate simultaneously.
   B) tax rates can be reduced without lowering tax revenues.
   C) the reduction of aggregate demand to restrain inflation will cause a further reduction in the real GDP.
   D) the adjustment of aggregate demand can neither increase real GDP nor reduce inflation.

2. The traditional Phillips Curve suggests a tradeoff between:
   A) price level stability and income equality.
   B) the level of unemployment and price level stability.
   C) unemployment and income equality.
   D) economic growth and full employment

3. Refer to the above diagram for a specific economy. Which of the following best describes the relationship shown by this curve?
   A) The demand for labor is large when the rate of inflation is small.
   B) When the rate of unemployment is high, the rate of inflation is high.
   C) The rate of inflation and the rate of unemployment are inversely related.
   D) The rate of inflation and the rate of unemployment are directly related.

4. Refer to the above diagram for a specific economy. Which of the following best describes a decision by policymakers that moves this economy from point b to point a?
   A) Policymakers have instituted an expansionary monetary policy and/or a budgetary deficit, thereby accepting more unemployment to reduce the rate of inflation.
   B) Policymakers have instituted a restrictive monetary policy and/or a budgetary surplus, thereby accepting a higher rate of inflation to reduce unemployment.
   C) Policymakers have instituted an expansionary monetary policy and/or a budgetary deficit, thereby accepting a higher rate of inflation to reduce unemployment.
   D) Policymakers have instituted a restrictive monetary policy and/or a budgetary surplus, thereby accepting more unemployment to reduce the rate of inflation.

5. Which of the following allegedly contributed to the stagflation in the mid-1970s?
   A) appreciation of the dollar
   B) a sharp drop in the prices of farm products
   C) a dramatic increase in oil prices
   D) rising productivity in manufacturing.

6. A major adverse aggregate supply shock:
   A) automatically shifts the aggregate demand curve rightward.
   B) causes the Phillips Curve to shift rightward and upward.
   C) can be caused by rising productivity.
   D) can be caused by falling wages.
7. In the last half of the 1990s, the usual short-run tradeoff between inflation and unemployment did not arise because:
   A) the Fed held interest rates constant.
   B) the Federal government balanced its budget.
   C) the U.S. personal savings rate rose.
   D) productivity (and thus aggregate supply) grew faster than previously.

8. Assume the government purposely incurs a budget deficit that is financed by borrowing. As a result, interest rates rise and the amount of private investment spending declines. This illustrates:
   A) the equation-of-exchange effect.
   B) the paradox of thrift.
   C) the crowding-out effect.
   D) the wealth effect.

9. Which of the following fiscal policy actions is most likely to increase aggregate supply?
   A) An increase in personal income tax rates.
   B) A reduction in interest rates that encourages consumers to purchase more durable goods.
   C) An increase in transfer payments to unemployed workers.
   D) An increase in government spending on infrastructure that increases private sector productivity

10. The crowding-out effect suggests that:
    A) tax increases are paid primarily out of saving and therefore are not an effective fiscal device.
    B) government borrowing to finance the public debt increases the real interest rate and reduces private investment.
    C) it is very difficult to have excessive aggregate spending in a capitalist economy.
    D) consumer and investment spending always vary inversely.