PART I: THE LONG-RUN MODEL (The AD and LRAS curves)

1. Consider the long-run equilibrium. If there is an increase in the tax rate,
   a. price level increases and output decreases.
   b. price level and output increase.
   c. price level declines and output stays the same.
   d. All of the above.
   e. None of the above.

2. Consider the long-run equilibrium. If there is a technological advancement,
   a. price level and output decline.
   b. price level and output increase.
   c. price level increases and output decrease.
   d. price level decreases and output increases.
   e. None of the above.

3. In the long-run model, macroeconomic policies are
   a. effective.
   b. not able to affect output.
   c. able to change the real variables.
   d. All of the above.
   e. None of the above.

PART II: SHORT-RUN EQUILIBRIUM (The AD and the perfectly elastic SRAS curves)

4. An increase in the tax rate will lead to
   a. a decline in the output and the price level.
   b. a decline in the output without any changes in the price level.
   c. an increase in the output and the price level.
   d. All of the above.
   e. None of the above.

5. An increase in the price level will make the output to
   a. decrease.
   b. increase.
   c. stay the same.
   d. All of the above.
   e. None of the above.
PART III: SHORT-RUN EQUILIBRIUM (The AD and the positively-sloping SRAS curves)

6. An increase in government expenditures will lead to
   a. a decline in output and the price level.
   b. a decline in output without any changes in the price level.
   c. an increase in output and the price level.
   d. All of the above.
   e. None of the above.

7. An increase in the money supply and the nominal wage rate will lead to
   a. a decline in the output and the price level.
   b. an increase in the price level; however, the direction of the change in output is uncertain.
   c. a decline in the output; however, the direction of the change in the price level is uncertain.
   d. All of the above.
   e. None of the above.

8. An increase in government expenditures and a decline in the nominal wage rate will lead to
   a. a decline in the output and the price level.
   b. an increase in the price level; however, the direction of the change in output is uncertain.
   c. an increase in the output; however, the direction of the change in the price level is uncertain.
   d. All of the above.
   e. None of the above.

PART IV: SHORT-RUN AND LONG-RUN EQUILIBRIUM (The AD, LRAS, and the positively-sloping SRAS curves)

9. Which of the following is correct?
   a. A recessionary gap implies that the short-run real GDP is below the full-employment level of real GDP.
   b. An inflationary gap implies that the short-run real GDP is above the full-employment level of real GDP.
   c. The macroeconomic equilibrium occurs when the short-run real GDP equals the full-employment level of real GDP.
   d. All of the above.
   e. None of the above.
10. Suppose a recessionary gap. Which of the following will bring the economy to the macroeconomic equilibrium?
   a. Depreciation of the currency.
   b. Decline in the money supply.
   c. Decline in the nominal wage.
   d. Both (a) and (c) are correct.
   e. Both (b) and (c) are correct.

11. Suppose an inflationary gap. Which of the following will bring the economy to the macroeconomic equilibrium?
   a. Increase in the money supply.
   b. Decline in the tax rate.
   c. Increase in the nominal wage.
   d. All of the above.
   e. None of the above.

12. Suppose the macroeconomic equilibrium. The government decreases the tax rate. Which of the following is correct?
   a. The country’s short-run output will increase.
   b. The country’s long-run output will remain the same.
   c. This policy will create inflation both in the short- and the long run.
   d. All of the above.
   e. None of the above.

13. Suppose the macroeconomic equilibrium. Which of the following is correct?
   a. Technological advances will lead to a higher real income in the long-run.
   b. Technological advances will lead to a lower real income in the long-run.
   c. Economic policies that focus on increasing the LRAS have a better chance of providing higher real income and maintaining price stability.
   d. Both (a) and (b) are correct.
   e. Both (a) and (c) are correct.