ECON 202 / SAMPLE TEST #4
Aggregate Demand Curve

1) Moving along the aggregate demand curve, a decrease in the quantity of real GDP demanded is a result of
   A) an increase in the price level.
   B) a decrease in the price level.
   C) an increase in money supply.
   D) a decrease in the tax rate.

2) Other things equal, along the aggregate demand curve, a higher price level is associated with
   A) a decrease in aggregate demand.
   B) a decrease in the quantity of real GDP demanded.
   C) a decrease in the quantity of nominal GDP demanded.
   D) higher tax rate.

3) Which of the following changes while moving along the aggregate demand curve?
   A) Government purchases of goods and services.
   B) The price level.
   C) The money supply.
   D) Future profits from investment projects.

4) Your real wealth is measured as the
   A) amount of assets you have in dollar terms.
   B) amount of money you have.
   C) amount of goods and services your wealth will buy.
   D) amount of goods you have divided by the price level.

5) If you are have $1,000 in the bank and the price level rises 5 percent, your
   A) money is worth more in terms of what it can purchase.
   B) money is worth less in terms of what it can purchase.
   C) money is worth the same in terms of what it can purchase.
   D) purchasing power has risen.

6) One reason that the aggregate demand curve has a negative slope is because
   A) people buy fewer goods and save more when the price level rises because their real wealth decreases.
   B) firms produce more when the price rises.
   C) people earn more money when output rises.
   D) The premise of the question is wrong because the aggregate demand curve has a positive slope.

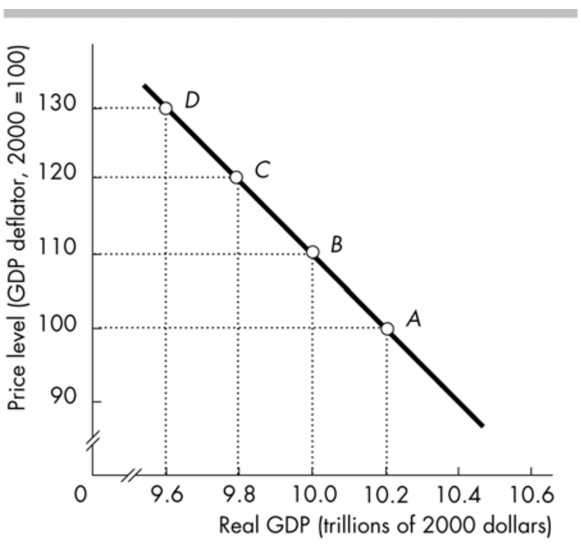
7) One reason that the aggregate demand curve has a negative slope is because
   A) firms supply more when prices rise.
   B) people buy more foreign goods when the domestic price level rises.
   C) the amount of money in the economy increases when the price level rises.
   D) firms supply less when prices rise.

8) According to the wealth effect, an increase in the price level ____ real wealth and ____ consumption expenditure.
- A) increases; increases
- B) increases; decreases
- C) decreases; increases
- D) decreases; decreases

9) The intertemporal substitution effect
- A) implies that, as the price level rises, the interest rate declines.
- B) is one of the reasons that the aggregate demand curve has a negative slope.
- C) explains why the aggregate demand increases when the money supply increases.
- D) explains why the aggregate demand increases when the tax rate declines.

10) An increase in the price level decreases net exports, thereby decreasing the amount of real goods and services purchased in the United States. This phenomenon is known as
- A) the wealth effect.
- B) the barter effect.
- C) the international substitution effect.
- D) the GDP effect.

Figure 1



11) Consider **Figure 1**. Suppose the economy is initially at point B. Then the price level falls by 10. The wealth effect will help

A) move the economy to point *A*.
B) move the economy to point *C*.
C) move the economy to point *D*.
D) keep the economy to point *B*.

12) Consider **Figure 1**. Suppose the economy initially is at point *B*. Then price level rises by 10. The wealth effect will help

A) move the economy to point *A*.
B) move the economy to point *C*.
C) move the economy to point *D*.
D) keep the economy to point *B*.

13) Consider **Figure 1**. Suppose the economy initially is at point *C*. Then the domestic price level rises by 10. The

A) substitution effect would help move the economy to point *D*.
B) substitution effect would help move the economy to point *B*.
C) substitution effect would keep the economy at point *C*.
D) wealth effect would help move the economy to point *B*.

14) Which of the following does <u>NOT</u> shift the aggregate demand curve?

A) A decrease in the money supply.
B) An increase in investment.
C) An increase in the price level.
D) A decrease in taxes.

15) An increase in expected future incomes

A) increases aggregate demand.
B) increases the aggregate quantity demanded.
C) decreases the aggregate quantity demanded.
D) decreases aggregate demand.

16) A rise in the expected future inflation rate

A) increases aggregate demand.
B) increases the aggregate quantity demanded.
C) decreases the aggregate quantity demanded.
D) decreases aggregate demand.

17) An increase in government purchases of goods and services

A) increases aggregate demand.
B) increases the aggregate quantity demanded.
C) decreases the aggregate quantity demanded.
D) decreases aggregate demand.

18) Lower taxes

A) increase aggregate demand.
B) increase the aggregate quantity demanded.
C) decrease the aggregate quantity demanded.
D) decrease aggregate demand.

19) An increase in the quantity of money
- A) increases aggregate demand.
- B) increases the aggregate quantity demanded.
- C) decreases the aggregate quantity demanded.
- D) decreases aggregate demand.

20) Assume the following US$-British pound sterling (£) exchange rate:

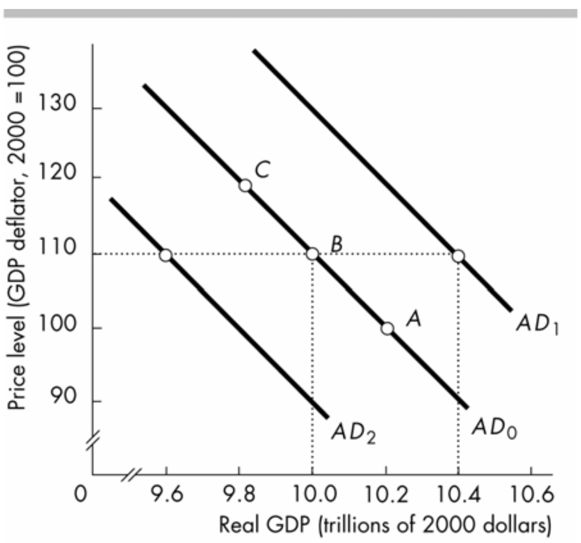
$(\$/£)_{2003} = 1$

$(\$/£)_{2004} = 1.5$

Which of the following is correct?
- A) The U.S aggregate demand curve will increase.
- B) The U.K. aggregate demand curve will increase.
- C) This will have no effect on the U.S. aggregate demand curve.
- D) None of the above.

21) A decrease in foreigners' income
- A) increases aggregate demand in the United States.
- B) increases the aggregate quantity demanded in the United States.
- C) decreases the aggregate quantity demanded in the United States.
- D) decreases aggregate demand in the United States.

Figure 2



22) Consider **Figure 2**. The economy is initially at point *B*. If the government decreases its purchases, there is

A) a movement to point *C*.
B) a movement to point *A*.
C) a shift to AD_2
D) a shift to AD_1

23) Consider **Figure 2**. The economy is initially at point *B*. If the tax rate increases, there is

A) a movement to point *C*.
B) a movement to point *A*.
C) a shift to AD_2.
D) a shift to AD_1.

24) Consider **Figure 2**. The economy is initially at point *B*. If the monetary authority decreases the quantity of money, there is

A) a movement to point *C*.
B) a movement to point *A*.
C) a shift to AD_2.
D) a shift to AD_1.