

**ECON 202**  
**Sample test #7**

**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.