**1. Suppose there is an increase in the price of oil. The central bank does not change its price target. The change in the price of oil will cause which of the following in the medium run?**

1. a decrease in output
2. no change in the price level
3. an increase in the interest rate
4. all of the above
5. none of the above

**2. The short-run aggregate supply curve (AS) is upward sloping because:**

1. an increase in the aggregate price level will cause an increase in the interest rate and a reduction in output.
2. a reduction in the aggregate price level causes a reduction in nominal money demand and a reduction in the interest rate.
3. an increase in the nominal wage causes a reduction in the amount of output that firms are willing to produce.
4. an increase in output causes an increase in employment, a reduction in unemployment, an increase in the nominal wage and an increase in the price level.

**3. At the current level of output, suppose the actual price level is less than the price level that individuals expect (i.e., Pt < Pet).**

**We know that:**

1. output is currently below the natural level of output.
2. the interest rate will tend to rise as the economy adjusts to this situation.
3. the nominal wage will tend to increase as individuals revise their expectations of the price level.
4. any subsequent reduction in the aggregate price level will cause an increase in the real money supply and a rightward shift in the aggregate demand curve.
5. none of the above

**4. Suppose the central bank wants to reduce inflation by 10%, un = 6%, and the responsiveness of wages to unemployment, α=0.5. How many point-years of excess unemployment will be needed to reduce inflation by 10%?**

1. 0.5
2. 5
3. 10
4. 20

**5. When using a logarithmic scale to plot output per capita over time, an upward-sloping curve that becomes increasingly steep indicates:**

1. output per capita is not changing.
2. output per capita is growing by a constant amount each year.
3. output per capita is growing by a constant percentage each year.
4. output per capita is growing by an increasing percentage each year.
5. output per capita is not defined.

**6. Assume that expected inflation is based on the following:πte = θπt-1 , θ =1, we know that:**

1. a reduction in the unemployment rate will have no effect on inflation.
2. low rates of unemployment will cause steadily increasing rates of inflation.
3. the actual unemployment rate will not deviate from the natural rate of unemployment.
4. the Phillips curve illustrates the relationship between the level of inflation rate and the level of the unemployment rate.
5. none of the above.

7. **A permanent reduction in the saving rate will:**

1. increase the growth of output per worker only temporarily.
2. increase the steady state growth of output per worker.
3. decrease the growth of output per worker only temporarily.
4. decrease the steady state growth of output per worker.
5. increase or decrease the steady state growth of output per worker, depending on the level of saving to begin with.

8. **Which of the following events will cause an increase in output per capita (Y/N)?**

1. an increase in K
2. an increase in K/N
3. a reduction in K
4. all of the above
5. both of the first two answers above

9. **Suppose there are two countries that are identical with the following exception. The saving rate in country A is less than the saving rate in country b. Given this information, we know that in the long run:**

1. the growth rate of output per capita will be greater in B than in A.
2. the growth rate of output per capita will be greater in A than in B.
3. output per capita will be greater in B than in A
4. output per capita will be greater in A than in B
5. none of the above

10. **If the Phillips curve equation is**

**πt - πt-1 = -(ut - un), which of the following will increase the inflation rate by 6 percentage points?**

1. a 6 percentage point reduction in unemployment for one year
2. a 3 percentage point reduction in unemployment for 2 years
3. a 1 percentage point reduction in unemployment for 6 years
4. all of the above
5. none of the above