Quiz # 9  
Dr. Nath

Multiple Choice  
*Identify the choice that best completes the statement or answers the question.*

1. During a recession the economy experiences  
   a. rising employment and income.  
   b. rising employment and falling income.  
   c. rising income and falling employment.  
   d. falling employment and income.

2. Which of the following statements is correct?  
   a. Most economists use the model of aggregate demand and aggregate supply to analyze short-run economic fluctuations.  
   b. Economic fluctuations are essentially unrelated to changes in business conditions.  
   c. Economic fluctuations follow a regular, predictable pattern.  
   d. All of the above are correct.

3. Which of the following is correct?  
   a. Over the business cycle consumption fluctuates more than investment.  
   b. Economic fluctuations are easy to predict.  
   c. During recessions sales and profits tend to fall.  
   d. Because of government policy the U.S. has suffered no recessions in the last 25 years.

4. During recessions  
   a. sales and profits fall.  
   b. sales and profits rise.  
   c. sales rise, profits fall.  
   d. profits fall, sales rise.

5. Real GDP  
   a. moves in the same direction as unemployment.  
   b. is not adjusted for inflation.  
   c. measures economic activity and real income.  
   d. All of the above are correct.

6. As recessions begin, production  
   a. and unemployment both rise.  
   b. rises and unemployment falls.  
   c. falls and unemployment rises.  
   d. and unemployment both fall.

7. Which of the following is correct concerning recessions?  
   a. They come at fairly regular and predictable intervals.  
   b. They are associated with comparatively large declines in investment spending.  
   c. They are any period when real GDP growth is less than average.  
   d. They tend to be associated with falling unemployment rates.
8. Historically, the change in real GDP during recessions has been
   a. mostly a change in investment spending.
   b. mostly a change in consumption spending.
   c. about equally divided between consumption and investment spending.
   d. sometimes mostly a change in consumption and sometimes mostly a change in investment.

9. The model of aggregate demand and aggregate supply explains the relationship between
   a. the price and quantity of a particular good.
   b. unemployment and output.
   c. wages and employment.
   d. real GDP and the price level.

10. Which of the following adjust to bring aggregate supply and demand into balance?
    a. the price level and real output
    b. the real rate of interest and the money supply
    c. government expenditures and taxes
    d. the saving rate and net exports
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Answer Section

MULTIPLE CHOICE

1. ANS: D
   NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Business cycle
   MSC: Definitional
   PTS: 1
   DIF: 1
   REF: 33-1

2. ANS: A
   NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Economic fluctuations
   MSC: Interpretive
   PTS: 1
   DIF: 1
   REF: 33-1

3. ANS: C
   NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Business cycle
   MSC: Definitional
   PTS: 1
   DIF: 1
   REF: 33-1

4. ANS: A
   NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Business cycle
   MSC: Definitional
   PTS: 1
   DIF: 1
   REF: 33-1

5. ANS: C
   NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Real GDP
   MSC: Definitional
   PTS: 1
   DIF: 1
   REF: 33-1

6. ANS: C
   NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Unemployment and the business cycle
   MSC: Definitional
   PTS: 1
   DIF: 1
   REF: 33-1

7. ANS: A
   NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Business cycle
   MSC: Definitional
   PTS: 1
   DIF: 1
   REF: 33-1

8. ANS: D
   NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Investment and the business cycle
   MSC: Definitional
   PTS: 1
   DIF: 1
   REF: 33-2

9. ANS: A
   NAT: Analytic
   LOC: Aggregate demand and aggregate supply
   TOP: Aggregate demand and aggregate supply model
   MSC: Definitional
   PTS: 1
   DIF: 1
   REF: 33-2

10. ANS: A
    NAT: Analytic
    LOC: Aggregate demand and aggregate supply
    TOP: Aggregate demand and aggregate supply model
    MSC: Definitional
    PTS: 1
    DIF: 1
    REF: 33-2