3. National Income and Price Determination

Starter Quiz ·

AP Macroeconomics Name: _____ Score: _____

1. The aggregate demand curve slopes downward mainly because of the wealth, interest rate, and:
   - ☐ substitution to other goods
   - ☐ tax effect
   - ☐ exchange rate effect
   - ☐ population effect
2. The marginal propensity to consume plus the marginal propensity to save equals _____.

   _____
3. SRAS slopes upward mainly because, in the short run:
   - ☐ wages adjust instantly
   - ☐ demand falls
   - ☐ nominal wages are sticky, so a higher price level raises profit per unit
   - ☐ the government sets output
4. The long-run aggregate supply curve is:
   - ☐ downward-sloping
   - ☐ vertical at full-employment output
   - ☐ upward-sloping
   - ☐ horizontal
5. Short-run macroeconomic equilibrium is where:
   - ☐ AD crosses LRAS only
   - ☐ AD crosses SRAS
   - ☐ the price level is highest
   - ☐ output is zero
6. A rightward shift in AD causes, in the short run:
   - ☐ higher prices, lower output
   - ☐ a lower price level and lower output
   - ☐ a higher price level and higher output
   - ☐ no change

7. In the long run, self-adjustment always returns real output to potential.

   ☐ True ☐ False

8. To cool an inflationary gap, the government should increase spending and cut taxes.

   ☐ True ☐ False

9. In a recession, unemployment benefits rise automatically, supporting aggregate demand.

   ☐ True ☐ False

10. Aggregate demand equals C + I + G + (X − _____).

    _____

AP Macroeconomics

1. **exchange rate effect**

   AD covers every good, so there is no substitution – the three macro effects explain the slope.

2. **1**

   Every extra dollar is either spent or saved, so MPC + MPS = 1.

3. **nominal wages are sticky, so a higher price level raises profit per unit**

   With wages locked in, a higher price level means more profit per unit, so firms produce more.

4. **vertical at full-employment output**

   In the long run output depends on real resources, not the price level, so LRAS is vertical.

5. **AD crosses SRAS**

   Where AD meets SRAS, the output demanded equals the output supplied in the short run.

6. **a higher price level and higher output**

   Along the upward SRAS, more demand raises both price and output – price and output move together.

7. **True**

   Output is fixed by real resources in the long run, so it always heals back to potential.

8. **False**

   False. That is expansionary policy, which would widen the gap. Cooling it needs contractionary fiscal policy: cut spending or raise taxes to shift AD left.

9. **True**

   More people claim benefits when jobs are lost, so transfer spending rises on its own.

10. **M**

    AD = C + I + G + net exports (X − M).