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 to every price change

   ☐ demand falls as the price level rises

   ☐ nominal wages are sticky, so a higher price level raises profit per unit

   ☐ the government sets the level of output

4. The long-run aggregate supply curve is:

   ☐ downward-sloping

   ☐ vertical at full employment

   ☐ 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

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☐ 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 − _____).

    _____

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**

   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).

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