

5. Long-Run Consequences of Stabilization Policies

Starter Quiz ·

AP Macroeconomics

Name: _____ Score: _____

1. Expansionary monetary policy shifts AD in the same direction as:
 - ☐ contractionary fiscal policy
 - ☐ no shift at all
 - ☐ expansionary fiscal policy (both shift AD right)
 - ☐ a leftward AD shift
2. The short-run Phillips curve slopes downward, showing:
 - ☐ a trade-off between inflation and unemployment
 - ☐ that both always rise together
 - ☐ inflation is always zero
 - ☐ no relationship
3. The equation of exchange is:
 - ☐ $M = PQ - V$
 - ☐ $M + V = P + Q$
 - ☐ $MP = VQ$
 - ☐ $MV = PQ$
4. A government runs a budget deficit when, in a year:
 - ☐ the debt is fully repaid
 - ☐ spending equals tax revenue
 - ☐ tax revenue is greater than spending
 - ☐ spending is greater than tax revenue
5. Firms and the government both borrow from the market for:
 - ☐ final goods
 - ☐ foreign exchange
 - ☐ loanable funds
 - ☐ labour
6. Real GDP grows 5% and the population grows 2%. Approximate per-capita growth, in percent?
_____ percent

7. Roads, ports, power, and broadband are examples of _____.

8. Select **both** goals of stabilization policy.

☐ price stability

☐ the largest possible deficit

☐ full employment

☐ maximum inflation

Tick every correct option.

9. The long-run Phillips curve is vertical at the _____ rate of unemployment.

10. V, how many times each dollar is spent in a year, is the _____ of money.

1. expansionary fiscal policy (both shift AD right)

Both cut interest rates or taxes to raise spending, shifting AD right.

2. a trade-off between inflation and unemployment

Lower unemployment comes with higher inflation, and vice versa – a short-run trade-off.

3. $MV = PQ$

MV (total spending) = PQ (money value of goods sold).

4. spending is greater than tax revenue

Spending above revenue is a deficit; below is a surplus; equal is balanced.

5. loanable funds

The loanable-funds market channels savings to borrowers.

6. 3 percent

Per-capita growth $\approx 5 - 2 = 3\%$.

7. infrastructure

Infrastructure raises the return on private capital.

8. price stability; full employment

Stabilization aims for full employment and price stability.

9. natural

The LRPC and SRPC cross exactly at the natural rate.

10. velocity

The quantity theory assumes velocity is roughly constant in the long run.