

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

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.