

MCQ BASED ON SOLOW &KALDOR GROWTH MODEL

1. In the two-sector endogenous growth model, the fraction of labor in universities ( $u$ ) affects the steady-state:
  - A) level of income.
  - B) growth rate of income.
  - C) level of income and growth rate of income.
  - D) level of income, growth rate of income, and growth rate of the stock of knowledge.
  
2. In the United States' recent economic history:
  - A) increasing capital formation has been a high priority of economic policy.
  - B) economic policy has not been concerned with increasing capital formation.
  - C) economic policy has been more concerned with increasing labor skills than with increasing capital formation.
  - D) economic policymakers have felt that too much attention has been paid to increasing capital formation.
  
3. According to the Solow model, persistently rising living standards can only be explained by:
  - A) population growth.
  - B) capital accumulation.

- C) saving rates.
  - D) technological progress.
4. A 5-percent reduction in the money supply will, according to most economists, reduce prices 5 percent:
- A) in both the short and long runs.
  - B) in neither the short nor long run.
  - C) in the short run but lead to unemployment in the long run.
  - D) in the long run but lead to unemployment in the short run.
5. In the long run, the level of output is determined by the:
- A) interaction of supply and demand.
  - B) money supply and the levels of government spending and taxation.
  - C) amounts of capital and labor and the available technology.
  - D) preferences of the public.
6. The relationship between the quantity of goods and services supplied and the price level is called:
- A) aggregate demand.
  - B) aggregate supply.
  - C) aggregate investment.
  - D) aggregate production.

7. Possible explanations for sticky magazine prices include the hypotheses that the costs of charging the wrong price may \_\_\_\_\_, and perhaps customers \_\_\_\_\_ frequent price changes inconvenient.
- A) be great; do not find
  - B) be great; find
  - C) not be great; find
  - D) not be great; do not find
8. The long-run aggregate supply curve is vertical at the level of output:
- A) determined by aggregate demand.
  - B) at which unemployment is at its natural rate.
  - C) at which the inflation rate is zero.
  - D) at a predetermined price level.
9. A short-run aggregate supply curve shows fixed \_\_\_\_\_, and a long-run aggregate supply curve shows fixed \_\_\_\_\_.
- A) output; output
  - B) prices; prices
  - C) prices; output
  - D) output; prices
10. Starting from long-run equilibrium, if a drought pushes up food prices throughout the economy, the Fed could move the economy more rapidly back to

full employment output by:

- A) increasing the money supply, but at the cost of permanently higher prices.
- B) decreasing the money supply, but at the cost of permanently lower prices.
- C) increasing the money supply, which would restore the original price level.
- D) decreasing the money supply, which would restore the original price level.