Dr.Surendra Kumar Class-M.A.Sem-IV

MCQ BASED ON SOLOW &KALDOR GROWTH MODEL

1. If the short-run *IS*-*LM* equilibrium occurs at a level of income above the natural rate of output, in the long run the ______ will ______ in order to return output to the natural rate.
A) price level; increase
B) interest rate; decrease
C) money supply; increase
D) consumption function; decrease

2. Analysis of the short and long runs indicates that the ______ assumptions are most appropriate in ______.
A) classical; both the short and long runs.
B) Keynesian; both the short and long runs.
C) classical; the short run whereas the Keynesian assumptions are most appropriate in the long run.
D) Keynesian; the short run whereas the classical assumptions are most appropriate in the long run.

3. If *MPC* = 0.75 (and there are no income taxes but only lump-sum taxes) when *T* decreases by 100, then the *IS* curve for any given interest rate shifts to the right by:
A) 100.
B) 200.
C) 300.

D) 400.

4. Those economists who believe that fiscal policy is more potent than monetary policy argue that the:
A) responsiveness of investment to the interest rate is small.
B) responsiveness of investment to the interest rate is large.
C) *IS* curve is nearly horizontal.
D) *LM* curve is nearly vertical.

5. If investment does not depend on the interest rate, then the ______ curve is ______.
A) *IS*; vertical
B) *IS*; horizontal
C) *LM*; vertical
D) *LM*; horizontal

6. The aggregate demand curve generally slopes downward and to the right because, for any given money supply *M* a higher price level *P* causes a ______ real money supply *M/P*, which ______ the interest rate and ______ spending:
A) lower; raises; reduces
B) higher; lowers; increases
C) lower; lowers; increases
D) higher; raises; reduces

7. In the *IS-LM* model, a decrease in government purchases leads to a(n) ______ in planned expenditures, a(n) ______ in total income, a(n) ______ in money demand, and a(n) ______ in the equilibrium interest rate.
A) decrease; decrease; decrease; decrease
B) increases; increase; increases; increase
C) decrease; decrease; increase; increase
D) increase; increase; decrease; decrease

8. The monetary transmission mechanism works through the effects of changes in the money supply on:
A) the budget deficit.
B) investment.
C) government expenditures.
D) taxation.

9. When adaptive expectations are used to model inflation expectations in the Phillips curve, then the natural rate of unemployment is called the ______ rate of unemployment.
A) structural
B) cyclical
C) short-run aggregate supply
D) non-accelerating inflation

10. In the sticky-price model, if no firms have flexible

prices, the short-run aggregate supply schedule will:

A) be vertical.

B) be steeper than it would be if some firms had flexible prices.

C) slope upward to the right.

D) be horizontal.