**CHAPTER 16**

1. According to the theory presented in this book, which of the following statements is correct?
2. Demand shocks cannot generate cyclical variations in production
3. **Demand shocks cannot generate permanent variations in production**
4. Technology shocks cannot generate cyclical variations in production
5. Technology shocks cannot generate permanent variations in production
6. Which of the following statements is **not** correct with respect to cyclical variations in Y, C and I?
7. There is a strong positive correlation between investment and production
8. There is a strong positive correlation between private consumption and production
9. There is a strong positive correlation between imports and production
10. **There is a strong positive correlation between government consumption and production**
11. Which of the following variables has the largest fluctuations (in percent of itself)?
12. Private consumption
13. **Private investment**
14. GDP
15. Government consumption
16. Which of the following variables has the largest fluctuations (in percent of itself)?
17. Private consumption
18. GDP
19. Government consumption
20. **Imports**
21. What factors determine the *importance* of a variable for fluctuations in aggregate demand?
22. The variability of the variable (in percent)
23. **The variability of the variable (in percent) and the level relative to GDP**
24. The variability of the variable (in percent) and the correlation with GDP
25. The level of the variable relative to GDP and the correlation with GDP
26. Which of the following variables is largest?
27. **Private consumption**
28. Private investment
29. Government consumption
30. Government investment
31. Which of the following variables is smallest?
32. Private consumption
33. Private investment
34. Government consumption
35. **Government investment**
36. Which of the following statements describes *the accelerator effect*?
37. As production increases, this generates an increase in income, which leads to an increase in consumption and a further boost to aggregate demand
38. As aggregate demand increases, this leads to an increase in production and this generates an increase in income
39. **As production increases, firms expect higher future demand, so they invest more and this gives a further boost to aggregate demand**
40. As production increases, firms make more profits, so they find it easier to finance investments, they invest more and this gives a further boost to aggregate demand
41. Which of the following statements describes the *financial accelerator effect*?
42. As production increases, this generates an increase in income, which leads to an increase in consumption and a further boost to aggregate demand
43. As aggregate demand increases, this leads to an increase in production and this generates an increase in income
44. As production increases, firms expect higher future demand, so they invest more and this gives a further boost to aggregate demand
45. **As production increases, firms make more profits, so they find it easier to finance investments, they invest more and this gives a further boost to aggregate demand**
46. Which of the following statements describes *the multiplier effect*?
47. **As production increases, this generates an increase in income, which leads to an increase in consumption and a further boost to aggregate demand**
48. As aggregate demand increases, this leads to an increase in production and this generates an increase in income
49. As production increases, firms expect higher future demand, so they invest more and this gives a further boost to aggregate demand
50. As production increases, firms make more profits, so they find it easier to finance investments, they invest more and this gives a further boost to aggregate demand
51. Which of the following statements best describes the real business cycle theory, which assumes that fluctuations are driven by supply-side shocks?
52. **Real business cycle theory explains fairly well the correlation between production, consumption, and investment but does less will when it comes to the real wage and the real interest rate**
53. Real business cycle theory explains fairly well the correlation between production and consumption but does less well when it comes to investment, the real wage and the real interest rate
54. Real business cycle theory explains fairly well the correlation between production and investment but does less well when it comes to consumption, the real wage and the real interest rate
55. Real business cycle theory explains fairly well the correlation between production, the real wage, consumption, and investment but does less well when it comes to the real interest rate