**MCQ CHAPTER 8**

1. Which of the following variables are affected by an increase in the money supply *in the long run*?
2. The real money supply and the real interest rate
3. The real money supply but not the real interest rate
4. The real interest rate but not the real money supply
5. **Neither the real money supply nor the real interest rate**
6. Which of the following variables are affected by an increase in the money supply *in the short run*?
7. **The real money supply and the real interest rate**
8. The real money supply but not the real interest rate
9. The real interest rate but not the real money supply
10. Neither the real money supply nor the real interest rate
11. Suppose that consumers become more impatient so they save less. How will this affect production if the money supply is held constant?
12. Production decreases in the short run and increases in the long run
13. Production increases in the short run and is unaffected in the long run
14. Production is unaffected in the short run and decreases in the long run
15. **Production increases in the short run and decreases in the long run**
16. The IS-LM model shows \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_?
17. How production and prices are determined for a given money supply
18. How the money supply and production are determined for a given interest rate
19. How the interest rate, the money supply and production are determined
20. **How production and the interest rate are determined for a given money supply**
21. Which factor is the most important determinant of private consumption?
22. The real interest rate
23. The level of assets
24. **Expected future income**
25. Current income
26. Which variables are the main determinants of private investment?
27. Income taxes and the level of wealth
28. **The expected real interest rate, expected future demand, and the current capital stock**
29. Current income and the nominal interest rate
30. Inflation and profits
31. How will an increase in expected inflation affect private investment if the nominal interest rate is held constant?
32. Investment decreases
33. Investment is unchanged
34. **Investment increases**
35. The effect is ambiguous
36. Which of the following factors will shift the IS curve?
37. An increase in the interest rate
38. An increase in production
39. An increase in the money supply
40. **An increase in expected inflation**
41. Which of the following factors will shift the LM curve?
42. An increase in the interest rate
43. An increase in production
44. **An increase in the money supply**
45. An increase in expected inflation
46. Which of the following statements is **not** correct?
47. The IS curve shows what production will be for a given interest rate
48. The IS curve shows a negative relation between the interest rate and production
49. **The IS curve shifts inwards if there is an increase in expected future income**
50. Changes in the interest rate imply movements along the IS curve
51. Which of the following statements is **not** correct?
52. The LM curve shows what the interest rate will be for a given level of production
53. **The LM curve is a negative relation between production and the interest rate**
54. The LM curve shifts inwards if there is an increase in the price level
55. Changes in production imply movements along the LM curve
56. Which of the following parameters does **not** affect the slope of the IS curve?
57. **The parameter reflecting the interest-sensitivity of money demand**
58. The parameter reflecting the interest-sensitivity of private consumption
59. The parameter reflecting the marginal propensity to consume
60. The parameter reflecting the interest-sensitivity of private investment
61. If the interest rate has a bigger effect on private consumption, \_\_\_\_\_\_\_\_\_\_\_.
62. **The IS curve becomes flatter**
63. The IS curve becomes steeper
64. The LM curve becomes flatter
65. The LM curve becomes steeper
66. If the interest rate has a smaller effect on velocity, \_\_\_\_\_\_\_\_\_\_.
67. The IS curve becomes flatter
68. The IS curve becomes steeper
69. The LM curve becomes flatter
70. **The LM curve becomes steeper**
71. If the marginal propensity to consume out of current income becomes bigger ,\_\_\_\_\_\_\_\_\_.
72. **The IS curve becomes flatter**
73. The IS curve becomes steeper
74. The LM curve becomes flatter
75. The LM curve becomes steeper
76. Point A in the figure below is **not** a short run equilibrium situation. Why not?

*i*

LM

IS

*Y*

*i1*

*Y1*

A

1. Aggregate demand is lower than production so production will fall
2. Money demand is higher than money supply so the interest rate will increase
3. Aggregate demand is higher than production so production will increase
4. **Money demand is smaller than money supply so the interest rate will fall**
5. Point B in the figure below is **not** a short run equilibrium situation. Why not?

*i*

LM

IS

*Y*

*i2*

*Y2*

BA

1. Aggregate demand is lower than production so production will fall
2. Money demand is higher than money supply so the interest rate will increase
3. **Aggregate demand is higher than production so production will increase**
4. Money demand is smaller than money supply so the interest rate will fall
5. The effects of monetary policy shocks have been studied using statistical so-called Vector-autoregressive models (VAR). What are the findings from such studies?
6. Monetary policy affects inflation but has no effect on production
7. Monetary policy affects production but has no effect on inflation
8. Monetary policy affects production with a longer lag than inflation
9. **Monetary policy affects inflation with a longer lag than production**
10. Monetary policy affects neither production nor inflation
11. According to the IS-LM model, what is the short-run effect of an increase in the money supply?
12. The interest rate and production both increase
13. **The interest rate falls and private investment increases**
14. The interest rate falls and private consumption decreases
15. The interest rate and production both decrease
16. The interest rate increases and production falls
17. According to the IS-LM model, what is the short-run effect of an increase in expected inflation for a given money supply?
18. **The interest rate and production both increase**
19. The interest rate falls and private investment increases
20. The interest rate falls and private consumption decreases
21. The interest rate and production both decrease
22. The interest rate increases and production falls
23. According to the IS-LM model, what is the short-run effect of an increase in the price level for a given money supply?
24. The interest rate and production both increase
25. The interest rate falls and private investment increases
26. The interest rate falls and private consumption decreases
27. The interest rate and production both decrease
28. **The interest rate increases and production falls**