1. An overall increase in the level of prices is known as
   a. deflation.
   b. disinflation.
   c. inflation.
   d. monetization.

2. If nominal wages are slow to adjust to changes in the price level, then the effect of an increase in the money supply is to
   a. increase both the price level and real GDP in the long run.
   b. decrease both the price level and real GDP in the long run.
   c. increase real GDP only in the short run, and to increase the price level in the long run.
   d. increase the price level only in the short run, and to increase real GDP in the long run.

3. The classical model of the price level asserts that
   a. money is neutral.
   b. expansionary monetary policy shifts aggregate demand to the left.
   c. the short-run effect of monetary policy is more beneficial than the long-run effect.
   d. the long-run effect of monetary policy is more beneficial than the short-run effect.

4. In the classical model,
   a. changes in the money supply do not affect aggregate demand.
   b. wages are slow to adjust to changes in the money supply.
   c. real GDP increases in response to an expansionary monetary policy.
   d. money is neutral both in the short run and in the long run.

5. The classical model of prices is a better description of the economy when
   a. rates of inflation are especially high.
   b. wages and prices are slow to adjust to changes in the money supply.
   c. the aggregate supply curve is upward-sloping, not vertical.
   d. changes in the money supply serve to boost real GDP.

6. If the Federal Reserve monetizes the federal debt,
   a. it is buying Treasury Bills in order to decrease aggregate supply.
   b. it is buying Treasury Bills in order to decrease aggregate demand.
   c. it is selling Treasury Bills in order to reduce aggregate demand.
   d. it is increasing the money supply by purchasing Treasury Bills.

7. Seigniorage is
   a. the rate of growth of the money supply during periods of high inflation.
   b. the revenue generated by the government's right to print money.
   c. the menu cost of anticipated inflation.
   d. the menu cost of unanticipated inflation.
8. If a significant part of the government budget deficit is covered by printing money,
   a. this will lead to inflation.
   b. this will lead to disinflation.
   c. this will lead to deflation.
   d. this will cause a rightward shift of long-run aggregate supply.

9. Which of the following statements is true?
   a. In the face of high inflation, the public will hold higher real money balances.
   b. Inflation imposes a tax on individuals who hold money.
   c. When inflation is high, people will seek to hold more of their assets in the form of money.
   d. People do not change their habits in response to the rate of inflation, and therefore it has no real effects.

10. What is the opportunity cost of holding money?
    a. the real rate of interest
    b. the nominal rate of interest
    c. the rate of seigniorage
    d. the rate of inflation

11. When U.S. inflation rates were high during the 1970s,
    a. people paid lower income taxes.
    b. business profits were exempt from taxation.
    c. interest payments on home mortgages were not tax-deductible.
    d. some productive investment was discouraged, because inflation caused the taxable amount of profit to be exaggerated.

12. The short-run Phillips curve
    a. demonstrates a negative relationship between the unemployment rate and the inflation rate.
    b. demonstrates a negative relationship between the unemployment rate and the rate of growth in GDP.
    c. demonstrates a positive relationship between the unemployment rate and the inflation rate.
    d. demonstrates a positive relationship between the unemployment rate and the rate of growth in GDP.

13. Which of the following statements is true?
    a. A positive output gap is associated with an unemployment rate that is above the natural rate of unemployment.
    b. A positive output gap is associated with an unemployment rate that is below the natural rate of unemployment.
    c. A negative output gap is associated with an unemployment rate that is below the natural rate of unemployment.
    d. There is no output gap in the short run.

14. The long-run Phillips curve
    a. is downward sloping, just like the short-run Phillips curve.
    b. is a vertical line at the nonaccelerating inflation rate of unemployment (NAIRU).
    c. is a horizontal line at the long-run inflation rate.
    d. is undefined.
15. What is the difference between deflation and disinflation?
   a. Deflation is a decline in energy prices; whereas disinflation is a decline in food prices.
   b. Disinflation is a decline in energy prices; whereas deflation is a decline in food prices.
   c. Deflation is a decline in the overall price level, whereas disinflation is a decline in the rate of overall price increases.
   d. Disinflation is a decline in the overall price level, whereas deflation is a decline in the rate of overall price increases.

16. The Fisher effect describes the relationship between
   a. the real interest rate and the unemployment rate.
   b. the nominal interest rate and the unemployment rate.
   c. the nominal interest rate and the rate of economic growth.
   d. the nominal interest rate and the expected rate of inflation.

17. The real interest rate is
   a. always greater than the nominal interest rate.
   b. always equal to the nominal interest rate.
   c. equal to the nominal interest rate minus the rate of inflation.
   d. equal to the nominal interest rate plus the rate of inflation.

18. Unexpected deflation would
   a. benefit lenders at the expense of borrowers.
   b. benefit borrowers at the expense of lenders.
   c. lower the real interest rate.
   d. cause people to avoid holding money as an asset.

19. If the inflation rate turns out to be higher than expected, then
   a. wealth will be redistributed from borrowers to lenders.
   b. wealth will be redistributed from lenders to borrowers.
   c. wealth will be redistributed from consumers to workers.
   d. the nominal interest rate will be less than the real interest rate.

20. Which of the following statements is true?
   a. If it is widely expected that the overall price level will decline by 5% per year, then the nominal interest rate will be -5%.
   b. Negative supply shocks cause disinflation.
   c. Negative supply shocks cause deflation.
   d. The nominal interest rate cannot go below zero.