The Multiplier Packet labeled “Review Questions” ANSWER KEY

1. Operating in the intermediate range of the aggregate supply curve, an increase in aggregate demand results in an increase in
   1. Price level only
   2. Real GDP only
   3. Neither price level nor real GDP
   4. Nominal GDP only
   5. Price level and real GDP
2. If the marginal propensity to consume is 0.8, what is the largest total increase in GDDP that can result from $500 of new spending?
   1. $400
   2. $500
   3. $625
   4. $2500
   5. $5000
3. Stagflation occurs when
   1. Price level rises for 2 consecutive quarters
   2. Price level rises and output falls
   3. Price level stays the same and output decreases
   4. Price level and output both fall
4. A recessionary gap exists when the short-run equilibrium level of real GDP
   1. Decreases over time
   2. Equals the full0employment level of real GDP
   3. Is above the full-employment level of real GDP
   4. Is below the full-employment level of real GDP
   5. Increases over time
5. On the graph of the aggregate supply and demand model below a recessionary gap exists, and the economy is in
   1. Short run, but not long run, equilibrium
   2. Long run, but not short run equilibrium LRAS
   3. Short run, equilibrium
   4. Both long and short run equilibrium SAS
   5. Long run, but not short run, equilibrium price level

AD

Real GDP