

Quiz 3

1. Compare equal amounts of spending in infrastructures and spending in defense by the government in the long run. Which one of the following statements is correct:

- a) Infrastructure spending leads to a lower consumption level than defense spending.**
- b) Infrastructure spending leads to a higher consumption level than defense.**
- d) Infrastructure spending leads to a higher GDP level than defense spending.**
- e) Infrastructure spending leads to a lower GDP level than defense.**

Answer: d)

2. In the U.S., the difference between the nominal interest rate and real inflation fluctuates over time. The reason for such fluctuations is likely to be:

- a) Real interest rate fluctuates over time.**
- b) Output fluctuates over time.**
- c) Price fluctuates over time.**
- d) Expected inflation differs from real inflation.**

Answer: d)

3. _____ income leads to _____ money demand; and _____ nominal interest leads to _____ money demand.

- a) higher; lower; higher; lower**
- b) higher; higher; higher; lower**
- c) higher; lower; higher; higher**
- d) higher; higher; higher; higher**

Answer: b)