Quiz 7-solutions

1. A sudden and large increase in oil price will likely lead to:
A) aggregate demand curve to shift left.
B) aggregate demand curve to shift right.
C) long run aggregate supply curve to shift left.
D) short run aggregate supply curve to shift up.

Answer: A)

2. When interest rate for 10-year treasury bills is smaller than the interest rate for the 3-month treasury bills, it suggests that:

A) It is time to buy the 10-year treasury bills and to sell the 3-month treasury bills.
B) A recession may be coming soon.
C) It is time to sell the 10-year treasury bills and to buy the 3-month treasury bills.
D) A recession may be ending soon.

Answer: B)

3. The difference between short run and long run is:

A) In the long run, we all are dead.
B) A short run is a quarter since GDP is reported quarterly.
C) Prices are rigid in the short run, and flexible in the long run.
D) In the Solow model, a long run is the time that takes for an economy from one steady state equilibrium to another steady state equilibrium.

Answer: C)