Place all answers to your quiz in the space provided at the end of the quiz. No credit will be given for misplaced answers. All answers must be recorded in ink.

1. According to the Economic Week in Review for March 10-14, 2003,
   a. higher oil prices in February contributed to an increase in the inflation rate.
   b. retail sales declined in February, partly because of severe winter weather.
   c. the U.S. is running a trade deficit very close to its record high.
   d. all of the above.

2. If the economy is currently producing below the full employment level of output, the unemployment rate will be (above, below) the natural rate of unemployment and there will be (upward, downward) pressure on real wages.
   a. above; upward.  b. above; downward.  c. below; upward.  d. below; downward.

3. Using the long run model of full employment output based on the labor market and the production function, which of the following combination of events would all contribute to an increase in full employment output?
   a. an increase in labor supply, an increase in labor demand, and an upward shift in the production function.
   b. an increase in labor supply, an increase in labor demand, and a rightward shift in the production function.
   c. an increase in labor supply, a decrease in labor demand, and a rightward shift in the production function.
   d. a decrease in labor supply, a decrease in labor demand, and an upward shift in the production function.

4. During a recession, which of the following components of aggregate demand tends to drop the most?
   a. consumption
   b. taxes
   c. investment
   d. net exports.

5. Using the long run model of full employment output based on the labor market and the production function, if there is an increase in labor supply (but no change in labor demand or the production function), productivity will ________, and long run aggregate supply will shift ________.
   a. rise; right.  b. rise; left.  c. fall; right.  d. fall; left.
Refer to figure 1 above to answer the next 4 questions.

6. Based on the short run equilibrium described in figure 1, the unemployment rate is (above, below) the natural rate of unemployment and there is (downward, upward) pressure on real wages.
   a. below; downward.  
   b. below; upward.  
   c. above; downward.  
   d. above; upward.

7. Based on the short run equilibrium described in figure 1, if the economy returns to the long run equilibrium by adjustments in the labor market alone, we should expect that over time, real wages will (fall, rise) and the short run aggregate supply curve will shift (right, left).
   a. rise; right.  
   b. rise; left.  
   c. fall; right.  
   d. fall; left.

8. Based on the short run equilibrium described in figure 1, if the economy returns to the long run equilibrium by adjustments in the labor market alone, we should expect that over time, production will (rise; fall) and prices will (rise; fall).
   a. fall; rise.  
   b. fall; fall.  
   c. rise; rise.  
   d. rise; fall.

9. Based on the short run equilibrium described in figure 1, if policy makers wanted to speed up the return to full employment, a combination of policies that would all hasten the recovery would include:
   a. lower taxes, higher interest rates and less government spending.
   b. higher taxes, lower interest rates and more government spending.
   c. lower taxes, lower interest rates and more government spending.
   d. higher taxes; lower interest rates and less government spending.

10. Which of the following provides an explanation for why the SRAS curve is not vertical.
   a. sticky prices.
   b. sticky wages.
   c. imperfect information about price changes.
   d. all of the above.