To answer the next 4 questions, consider the Phillips curve drawn below.

1. Based on the Phillips curves drawn, the natural rate of unemployment is
   a. 4%  b. 5%  c. more than 4% but less than 5%  d. more than 5%

2. Based on the short run Phillips curve, the expected rate of inflation is currently:
   a. 4%  b. 5%  c. more than 4% but less than 5%  d. more than 5%

3. If the unemployment rate is currently 6%, the labor market will gradually create ______ pressure on real wages.
   a. upward  b. downward  c. no

4. If inflation expectations increase from their current level:
   a. the short run Phillips curve will shift upward.
   b. the short run Phillips curve will shift downward.
   c. the long run Phillips curve will shift rightward.
   d. the short run Phillips curve will shift to leftward.

5. Which of the following would be the most likely to cause the economy to move up and to the left along a short run Phillips curve?
   a. an increase in aggregate demand.
   b. a decrease in aggregate demand.
   c. an increase in short run aggregate supply.
   d. a decrease in short run aggregate supply.
6. Which of the following is a correct ranking of federal government revenue sources from *most* to *least* important?
   a. sales taxes; personal income tax; social security taxes.
   b. personal income taxes; corporate income taxes; social security taxes.
   c. personal income tax; social security taxes; corporate income taxes.
   d. personal income tax; social security taxes; sales taxes.

7. Over the past 25 years, as a percentage of GDP, federal spending on defense (rose, fell) and federal spending on transfers (rose, fell).
   a. rose; rose.  b. rose; fell.  c. fell; rose.  d. fell; fell.

8. Which of the following statements is TRUE? Since 1976,
   a. the federal government had more years of budget surpluses than budget deficits.
   b. the federal government never ran a deficit because the balanced budget amendment passed in 1975 prohibits budget deficits.
   c. the federal government had a budget deficit every year.
   d. the federal government had a budget deficit every year until the late 1990s.

9. In the Bush tax cut proposal, the single largest category of cuts over the next 5 years is:
   a. reduction in individual tax rates.
   b. eliminate the taxation of corporate dividends.
   c. elimination of the marriage tax penalty.
   d. increases in the child tax credit.

10. According to the Economic Week in Review for the week of March 17,
    a. February construction of new housing continued at the rapid pace observed in January.
    b. the Conference Board's index of leading indicators fell during February.
    c. last week the Federal Reserve lowered its target for the federal funds rate in an attempt to stimulate the economy.
    d. all of the above.

11. To pay off the portion of the national debt held by the public would cost approximately ______ per worker in the U.S.
    a. $1500  b. $10,000  c. $20,000  d. $40,000

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