I. 10 points each.

1. During 2002.Q3 the inflation rate and output growth rates were 1% and 4%. Based upon these numbers, using Taylor's Rule, what should be the current target Fed Funds Rate?

2. Given that population and the stock of capital are rising, increasing LRAS, show graphically how it is possible for output to fall with rising prices.
3. Suppose that we observe that real wages are rising while employment is increasing. Use the labor market to explain this observation.

4. How does Taylor’s rule suggest the FED should respond to (i) prices rising and output growing more than trend, and (ii.) prices rising and output growing less than trend? Show the impact of these actions graphically.
II. Multiple Choice. Pick the best answer and mark it on the scanner sheet. Be sure to correctly code your Miami University UniqueID in the proper space. (3 points each)

1. At the end of the semester, the current FED target Fed Funds Rate was:
   a. 1.75%  
   b. 1.50%  
   c. 1.25%  
   d. 0.75%  
   e. none of the above are correct.

2. Which of the following will shift AD right?
   a. an increase in the target Fed Funds Rate.  
   b. an increase in Government Spending.  
   c. an increase in imports.  
   d. both a and c are correct.  
   e. none of the above are correct.

3. Which of the following will shift the LRAS to the right.
   a. an increase in the price level.  
   b. an increase in the capital stock.  
   c. a reduction in the target Fed Funds rate.  
   d. both a and b are correct.  
   e. none of the above are correct.

4. At a short-run equilibrium where Y>LRAS, we would expect to see:
   a. output increase.  
   b. wages increase.  
   c. the price level fall.  
   d. both a and c are correct.  
   e. none of the above are correct.

5. Which of the following will increase the interest rate?
   a. an increase in the money supply in the short-run  
   b. an increase in taxes in the long-run.  
   c. an increase in the capital stock.  
   d. both b and c are correct.  
   e. none of the above are correct.

6. An increase in the capital stock will in the long-run.
   a. increase output.  
   b. increase interest rates.  
   c. increase prices.  
   d. both b and c are correct.  
   e. none of the above are correct.

7. An increase in the target interest rate by the Fed will:
   a. shift AD left.  
   b. increase wages in the short-run and long-run.  
   c. increase output in the short run only.  
   d. both a and c are correct.  
   e. none of the above are correct.
8. If the capital stock and consumption both rise, then:
   a. prices will rise and output will rise.
   b. prices will fall and output will rise.
   c. prices will not change and output will rise.
   d. all the above could happen.
   e. none of the above are correct.

9. Which of the following will reduce the real wage rate?
   a. an increase in the money supply in the short-run.
   b. an increase in government spending in the long-run.
   c. an increase in government spending in the short-run.
   d. both a and c are correct.
   e. none of the above are correct.

10. An increase in the money supply will:
    a. reduce interest rates in the short-run and long-run.
    b. reduce the real wage in the short-run and long-run.
    c. increase output in the short-run and long-run.
    d. increase the price level in the short-run and the long-run.
    e. none of the above are correct.

11. Which of the following will shift the production function up?
    a. an increase in employment.
    b. an increase in the capital stock.
    c. an increase in the price level.
    d. both a and b are correct.
    e. none of the above are correct.

12. Consider the following production function in table form:

<table>
<thead>
<tr>
<th>Y</th>
<th>100</th>
<th>111</th>
<th>121</th>
<th>130</th>
<th>138</th>
</tr>
</thead>
<tbody>
<tr>
<td>L</td>
<td>10</td>
<td>11</td>
<td>12</td>
<td>13</td>
<td>14</td>
</tr>
</tbody>
</table>

What is the optimal level of employment if the price level is $2 and the wage rate is $17.

   a. 10   b. 11   c. 12   d. 13   e. 14

13. Which of the following will shift the labor demand curve right?
    a. an increase in wages
    b. an increase in prices.
    c. an increase in capital stock.
    d. both b and c are correct.
    e. none of the above are correct.

14. Suppose over time we observe both real wages and employment rising. This implies that:
    a. the money supply is rising.
    b. labor demand is increasing more than labor supply.
    c. labor supply is falling.
    d. both a and b are correct.
    e. none of the above are correct.
15. An increase in consumption spending will:
   a. increase interest rates in the short-run.
   b. increase wages in the long-run.
   c. increase real wages in the long-run.
   d. both a and b are correct.
   e. none of the above are correct.

16. In the short-run if AD>SRAS, then we would predict:
   a. prices will rise.
   b. wages will rise.
   c. prices will not changes.
   d. both a and b are correct.
   e. none of the above are correct.

17. If inflation were due to increases in government spending, then during inflationary periods we would see:
   a. real wages rising.
   b. output falling.
   c. interest rates rising.
   d. both a and b are correct.
   e. none of the above are correct.

18. An increase in the capital stock will:
   a. reduce prices because AD increase more than LRAS.
   b. increase real wages because increasing marginal products increase labor demand.
   c. lower interest rates because the rising output reduces money demand.
   d. both b and c are correct.
   e. none of the above are correct.

19. An increase in the expected inflation rate will:
   a. increase interest rates because it causes a fall in the money supply.
   b. reduce interest rates because it causes the capital stock to increase.
   c. increase interest rates because it causes the demand for money to increase.
   d. both a and c are correct.
   e. none of the above are correct.

20. When the FED adjusts interest rates up to a new higher target interest rate, this will:
   a. shift LRAS in and reduce output growth.
   b. shift AD in and reduce output growth.
   c. shift SRAS up and lower inflation.
   d. both b and c are correct.
   e. none of the above are correct.