

Questions for Chapter 12 of Macroeconomics, 10e (Parkin)

1. Stagflation occurs when the price level _____ and real GDP _____.

- A) falls; increases
- B) falls; decreases
- C) rises; decreases
- D) rises; increases

2. Stagflation is the result of

- A) an increase in aggregate demand.
- B) a decrease in short-run aggregate supply.
- C) a decrease in aggregate demand.
- D) an increase in short-run aggregate supply.

3. Stagflation is the combination of a _____ and _____.

- A) falling inflation rate; an increasing real GDP
- B) falling price level; an increasing real GDP
- C) rising price level; a decreasing real GDP
- D) rising inflation rate; a decreasing real GDP

4. Stagflation occurs when the

- A) price level and real GDP are increasing at the same time.
- B) price level and real GDP are decreasing at the same time.
- C) price level is increasing and real GDP is decreasing.
- D) price level is decreasing and real GDP is increasing.

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5. A cost-push inflation spiral results if the Fed's response to stagflation is to keep

- A) decreasing aggregate demand. B) decreasing aggregate supply.
C) increasing aggregate demand. D) increasing aggregate supply.

6. For a cost-push inflation to occur, oil price increases must be accompanied by

- A) decreased investment spending. B) lower personal tax rates.
C) increases in the quantity of money. D) increases in government expenditures.

7. To prevent cost-push inflation

- A) there must not be an excess demand for money.
B) interest rates must not rise.
C) there must not be an increase in government purchases.
D) the Central Bank must not let the quantity of money rise persistently.