ANSWERS - Chapter 12 – Aggregate Demand and Aggregate Supply – Quick Quiz

AGGREGATE DEMAND

1. Other things equal, a decrease in the real interest rate will:   
A. expand investment and shift the AD curve to the left.  
**B. expand investment and shift the AD curve to the right.**  
C. reduce investment and shift the AD curve to the left.  
D. reduce investment and shift the AD curve to the right.

2. Which of the following would most likely shift the aggregate demand curve to the right?   
**A. An increase in stock prices that increases consumer wealth.**  
B. Increased fear that a recession will cause workers to lose their jobs.  
C. An increase in personal income tax rates.  
D. A reduction in household borrowing because of tighter lending practices.

3. Which of the following would most likely reduce aggregate demand (shift the AD curve to the left)?   
A. A reduced amount of excess capacity.  
B. Increased government spending on military equipment.  
**C. An appreciation of the U.S. dollar.**  
D. Increased consumer optimism regarding future economic conditions.

4. In an effort to avoid recession, the government implements a tax rebate program, effectively cutting taxes for households. We would expect this to:   
A. affect neither aggregate supply nor aggregate demand.  
**B. increase aggregate demand.**  
C. reduce aggregate demand.  
D. reduce aggregate supply.