# **MidtermII-review**

True/False
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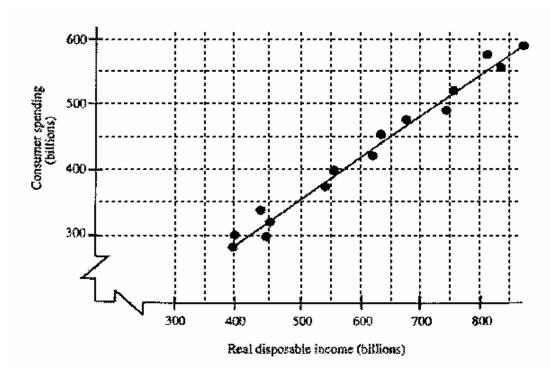
Indic	ate wl	hether the sentence or statement is true or false.						
	1.	President Bush in 2001 wanted a tax cut to stimulate consumer spending.						
	2.	2. The tax rebate in July of 2001 reduced the disposable income of U.S. consumers.						
	3. Aggregate demand is the sum of total domestic spending by the private sector.							
	4.	Aggregate demand is the total demand for the final goods and services produced in an economy.						
	5.	An example of investment is the purchase of machinery by a manufacturing company.						
	6.	National income minus personal taxes net of transfer payments equals disposable income.						
	7.	Government transfer payments is income earned by individuals who work for the federal government.						
	8.	Free markets coordinate economic activity in such a way as to eliminate the possibility of inflation or unemployment.						
	9.	The counterpart to the unsold output of firms is the lack of jobs for workers willing to work.						
	10.	When demand for goods and services is high, firms are more likely to hire more workers.						
	11.	The Aggregate Supply Curve is a fixed point representing potential GDP.						
	12.	An increase in the price level causes the aggregate supply curve to shift to another supply schedule.						
	13.	Over time, aggregate demand and aggregate supply grow by the same amount.						
	14.	Fiscal policy is the use of taxes and spending by the government to affect aggregate demand.						
	15.	In 2001, the Japanese economy was experiencing an inflationary gap.						
	16.	A tax reduction shifts the consumption schedule downward.						
	17.	The personal income tax varies as GDP changes.						
	ify the	Choice Letter of the choice that best completes the statement or answers the question.  Which of the following services have experienced declines in relative prices due to productivity increases?  a. medical services b. restaurant meals c. theatrical performances d. Internet access services  The graph that relates hours of labor input to output is called the a. consumption function. b. conjunction function.						
	20.	c. capital function. d. production function.  An increase in the number of hours worked would a. shift the production function upward. b. shift the production function downward.						

		c. shift the production function outward.
		d. not shift the production function.
	21.	Human capital differs from physical capital in that
		a. human capital is intangible.
		b. human capital is tangible.
		<ul><li>c. physical capital is intangible.</li><li>d. human capital has no cost to acquire.</li></ul>
	22	When aggregate demand decreases rapidly, the economy is likely to experience
	22.	a. inflation.
		b. an economic boom.
		c. economic growth.
		d. recession.
	23.	Consumer spending represents about what fraction of total spending in the economy?
		a. one-fifth
		b. two-thirds
		c. one-third
		d. two-fifths
		e. three-fourths
	24.	66 - 6 - 6 - 6 - 6 - 6 - 6 - 6 - 6 - 6
		a. all intermediate and final goods.
		<ul><li>b. all monetary investments.</li><li>c. real and financial investments.</li></ul>
		d. all final goods and services.
	25.	If a U.S. citizen buys a car produced in Germany, this transaction will add to
	23.	a. U.S. aggregate demand.
		b. U.S. aggregate supply.
		c. German aggregate demand.
		d. German imports.
	26.	The net export component of aggregate demand is defined as U.S.
		a. imports minus U.S. exports.
		b. imports plus U.S. exports.
		c. exports minus U.S. imports.
	27	d. exports minus taxes and customs duties.
	27.	Aggregate demand is a rather than a
		<ul><li>a. fixed number, concept</li><li>b. schedule, fixed number</li></ul>
		c. set number, concept
		d. government aggregate, private aggregate
	28.	Aggregate demand is the sum of
		a. $C + I + G + (X - IM)$ .
		b. $C + I + X$ .
		c. $C + I + X - IM$ .
		d. $C + I + G$ .
	29.	The difference between national income and disposable income is
		a. residential investment.
		b. federal deficits.
		<ul><li>c. net exports.</li><li>d. financial investment.</li></ul>
		e. the amount of taxes collected.
		c. the amount of taxes confected.

30.	The largest component of aggregate demand is
	a. investment spending.
	b. consumer spending.
	c. government spending.
	d. total imports.
31.	Which of the following would be added to U.S. national income?
	a. an American consumer buying French wine
	b. an American business selling aircraft to British Airways
	c. a Swedish firm selling mobile phones to Americans
	d. a French firm buying a Swedish cellular phone
32.	Government spending is an injection in the sense that it
	a. increases the amount of total spending.
	b. increases the size of the federal deficit.
	c. decreases the amount of household saving.
	d. decreases the amount of taxes paid.
33.	Why is it true that domestic product and national income must be equal?
	a. The IRS national accounting system assures that taxes equal total income.
	b. The total amount of spending must equal total national sales.
	c. The value of final product must equal the sum of resource income that produced it.
	d. The total amount of income earned is eventually spent.
34.	In the circular flow model, which of the following is an injection?
	a. investment spending
	b. government taxes
	c. total exports
	d. imports
35.	To get a complete measure of the total spending on U.Sproduced final goods and services, one must adjust
	aggregate demand by
	a. adding imports and subtracting exports.
	b. adding imports that are purchased by U.S. consumers.
	c. adding exports and subtracting imports.
	d. subtracting exports sold to foreigners.
36.	Historical data representing consumption and disposable income reveals that
	a. during the 1930s, U.S. saving was at a high level.
	b. U.S. citizens increased saving during World War II.
	c. there is no systematic relationship between the two.
	d. consumption rises faster than disposable income during recessions.
37.	
	horizontal axis, the relation between consumption and income will
	a. be inverse.
	b. be transcendental.
	c. shift unpredictably.
	d. be direct.
38.	On a graph with consumption on the vertical axis and disposable income on the horizontal axis, the slope of
	the line is
	a. greater than one.
	b. equal to one.
	c. less than one.
	d. undefined.

 39.							
	not by as much as the increase in their incomes." Which of the following is not consistent with this statement						
	by J.M. Keynes?						
	a. The slope of the consumption function is positive and less than one.						
	b. The slope of the consumption function is greater than that of the 45-degree line.						
	c. The slope of the consumption function is negative.						
	d. The slope of the consumption function is equal to one.						
 40.	If personal taxes are increased by \$10 billion, we can expect that consumers will reduce						
	a. spending by \$10 billion.						
	b. spending by more than \$10 billion.						
	c. spending by less than \$10 billion.						
	d. saving by \$10 billion.						
	e. saving by more than \$10 billion.						
 41.	The relationship between consumer spending and disposable income is called the						
	a. conjunction function.						
	b. consumption function.						
	c. aggregate demand function.						
	d. marginal spending function.						
 42.	Economists expect the relationship between consumption and disposable income to be						
	a. unpredictable.						
	b. transitory.						
	c. fixed.						
	d. inverse						
	e. stable.						
 43.	If DI falls by \$100 billion, and C falls by \$90 billion, the slope of the consumption is						
	a0.45.						
	b. 0.45.						
	c0.90.						
	d. 0.90.						
	e. 0.50.						
 44.	The numerical value of the MPC is typically						
	a. less than 1.						
	b. equal to 1.						
	c. greater than 1.						
	d. unpredictable.						
 45.	The marginal propensity to consume (MPC) is calculated by which formula?						
	a. MPC = change in DI divided by change in C						
	b. MPC = change in GDP divided by change in DI						
	c. MPC = change in C divided by change in DI						
	d. MPC = change in C divided by change in GDP						

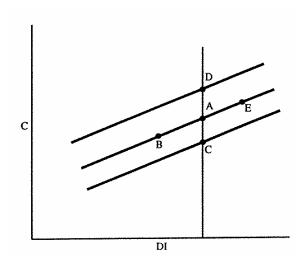
Figure 8-1



- 46. Given the scatter diagram in Figure 8-1, what is the MPC (your best estimate)?
  - a. 1/2
  - b. 1/3
  - c. 2/5
  - d. 3/4
  - 47. Based on the scatter diagram in Figure 8-1, how much will consumption increase after a permanent tax cut of \$400 billion?
    - a. \$100 billion
    - b. \$150 billion
    - c. \$250 billion
    - d. \$300 billion
  - 48. Given the scatter diagram in Figure 8-1, how much will consumption decrease if the price level rises by 5 percent?
    - a. \$50 billion
    - b. \$100 billion
    - c. \$200 billion
    - d. cannot be determined
  - 49. Based on the scatter diagram in Figure 8-1, if real disposable income is \$800 billion, the consumption spending would be
    - a. \$800 billion.
    - b. \$600 billion.
    - c. \$500 billion.
    - d. \$400 billion.
  - 50. According to the relationship represented by the consumption function, governments can indirectly decrease consumption spending by
    - a. increasing taxes.
    - b. decreasing transfers.
    - c. decreasing taxes.

- d. decreasing government spending.
- 51. A decrease in disposable income will
  - a. lead to an upward movement along the consumption function.
  - b. lead to a downward movement along the consumption function.
  - c. shift the consumption function upward.
  - d. shift the consumption function downward.

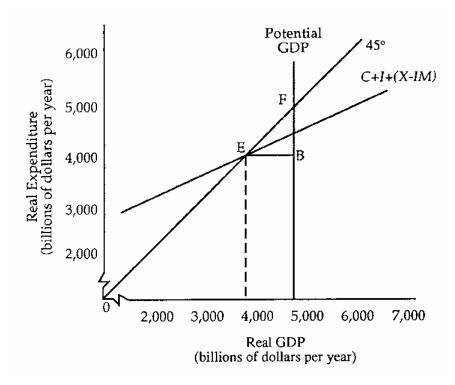
Figure 8-2



- \_\_\_\_\_ 52. In Figure 8-2, which of the following moves can be explained by a decrease in disposable income?
  - a. E to B
  - b. A to C
  - c. A to D
  - d. B to E
  - 53. In Figure 8-2, which of the following moves can be explained by a decrease in the price level?
    - a. A to B
    - b. A to C
    - c. A to D
    - d. A to E
  - \_ 54. In Figure 8-2, which of the following moves can be explained by a decrease in the prices of stock on the NASDAQ?
    - a. A to B
    - b. A to C
    - c. A to D
    - d. A to E
  - \_ 55. In Figure 8-2, which of the following moves can be explained by a tax cut?
    - a. A to B
    - b. A to C
    - c. A to D
    - d. A to E
    - 56. In Figure 8-2, which of the following moves can be explained by an increase in government transfer payments?
      - a. A to B
      - b. A to C

	c. A to D
	d. A to E
 57.	If real interest rates decrease, we should expect
	a. saving to increase.
	b. saving to decrease.
	c. consumption spending to decrease.
	d. no significant change in saving.
 58.	Lower real interest rates
	a. tend to shift the consumption function upward.
	b. have no significant effect on consumption.
	c. tend to shift the consumption function downward.
	d. tend to move the consumer upward along the consumption function.
 59.	When constructing a basic macroeconomic model, several assumptions (not realistic, but necessary to
	simplify the analysis) are made. Which of the following are assumed to be constant?
	a. the price level
	b. the rate of interest
	c. the foreign exchange rate
	d. the level of government spending
	e. All of the above are held constant.
 60.	In a simple macroeconomic model, only one component of expenditures is allowed to change:
	a. investment.
	b. consumption.
	c. net exports.
	d. government spending.
	e. transfer payments.
 61.	Economists are very good at explaining how individual markets work. Economist are less successful at
	explaining
	a. market pricing.
	b. recessions and inflation.
	c. central planning.
	d. business firm profits.

Figure 9-1

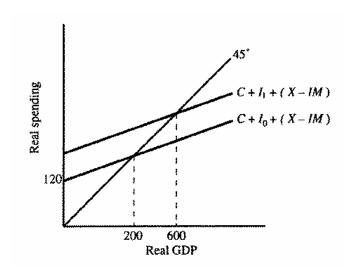


- 62. In Figure 9-1, at \$3,000 billion real GDP,
  - a. spending exceeds total output and inventories will fall.
  - b. inventories are rising.
  - c. aggregate demand equals aggregate supply.
  - d. spending falls short of output and inventories will rise.
- 63. In Figure 9-1, at \$7,000 billion real GDP,
  - a. inventories are increasing.
  - b. spending falls short of output.
  - c. spending exceeds output.
  - d. Both a and b are correct.
- 64. In Figure 9-1,
  - a. the 45-degree line represents all points where spending equals output.
  - b. to the left of equilibrium GDP, inventories will fall.
  - c. to the right of equilibrium GDP, inventories will rise.
  - d. All of the above are correct.
  - 65. In Figure 9-1, the economy is
    - a. experiencing an inflationary gap, shown by the horizontal distance EB.
    - b. at full employment without inflation.
    - c. experiencing a recessionary gap, shown by the horizontal distance EB.
    - d. experiencing a recessionary gap, shown by the distance between EF.
  - 66. The reason for the multiplier effect is that
    - a. businesses make decisions about investment projects based on anticipated profits.
    - b. one person's additional expenditure creates a new source of income for another person, and this additional income leads to still more spending.
    - c. changes in government spending typically deepen recessions and exacerbate inflationary conditions in the economy.
    - d. additional spending lowers the rate of interest and leads to further borrowing and

spending.

- 67. If an economy at the equilibrium level of GDP experiences an increase in the amount of investment spending, then inventories will be
  - a. depleted, causing firms to cut production.
  - b. accumulated, causing firms to cut production.
  - c. depleted, causing firms to increase production.
  - d. accumulated, causing firms to expand production.

Figure 9-2

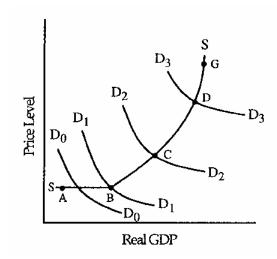


- \_\_\_\_ 68. If the shift in the C + I + (X IM) in Figure 9-2 was caused by a 80 dollar increase in investment, then the multiplier is
  - a. 0.
  - b. 2.
  - c. 3.
  - d. 4.
  - e. 5
  - 69. In Figure 9-2, if the second round effect of an increase in autonomous spending of \$100,000 is \$75,000, then the multiplier is
    - a. 400,000.
    - b. 6.
    - c. 4.
    - d. 4/5.
  - 70. In a simple economy (no government sector), the equilibrium level of GDP will be less than the full employment level of income if, at the full employment level of income, the
    - a. saving that consumers want to do is less than investing that businesses want to do.
    - b. saving that consumers want to do is greater than investing that businesses want to do.
    - c. saving that consumers want to do is less than spending that consumers want to do.
    - d. inventories are being depleted.
  - 71. When aggregate demand exceeds current production
    - a. both output and the price level are in equilibrium.
    - b. output is not in equilibrium, but the price level is.
    - c. prices are not in equilibrium, but output is.
    - d. neither output nor the price level is in equilibrium.

 72.	Economists generally assume that there is a short-run trade-off between
	a. output and employment.
	b. inflation and employment.
	c. deflation and unemployment.
	d. inflation and unemployment.
	e. output and growth.
73.	In the period from 1996-2000, the United States economy experienced the unusual combination of
	a. high unemployment and high inflation.
	b. high unemployment and low inflation.
	c. low unemployment and high inflation.
	d. low unemployment and low inflation.
74.	In spite of the fact that unemployment rates were at a 30-year low in 1996-2000, the United States economy
,	also experienced
	a. declining inflation.
	b. balance of payments surpluses.
	c. large budget deficits.
	d. low growth.
75.	For most firms in the economy, the largest part of factor costs is the cost of
75.	a. labor.
	b. capital.
	c. property and machinery.
	d. land and natural resources.
76.	To calculate a firm's per unit of output profit, it is necessary to subtract
70.	a. price from cost per unit.
	b. price from resource costs.
	c. cost per unit from product price.
	d. cost per unit from cost of resources.
77.	The aggregate supply curve slopes
	a. downward because firms can sell more at lower prices.
	b. downward because firms can hire more workers at lower prices.
	c. upward because firms want to hire more workers at higher wage levels.
	d. upward because firms can hire labor at fixed wages for short-run periods.
78.	The aggregate supply curve is
 70.	a. a schedule showing the relationship between the price level and the quantity of real GDP
	supplied.
	b. usually upward sloping.
	c. relatively flat at low levels of resource utilization.
	d. All of the above are correct.
79	If the price level falls, what will happen to the aggregate supply curve?
,,,	a. It will shift outward.
	b. It will shift inward.
	c. Nothing.
	d. It will get steeper.
	e. It will get flatter.
80.	The aggregate supply curve shows the relationship between and, holding all other factors constant
 00.	a. price level, quantity of real GDP supplied
	b. price level, supply of nominal GDP
	c. nominal GDP, price level of real GDP
	d. price level, amount of nominal GDP supplied
	1

- 81. If the price level rises, what will happen to the level of real GDP supplied?
  - a. It will decrease.
  - b. It will usually increase.
  - c. Nothing.
  - d. It will decrease at first and then increase.
- 82. Aggregate supply is defined as
  - a. how much the economy can produce at zero unemployment.
  - b. an amount of output the economy will produce at full employment.
  - c. the relationship between the expenditures schedule and the leakages schedule.
  - d. the relationship between the price level and the quantity of real GDP supplied.

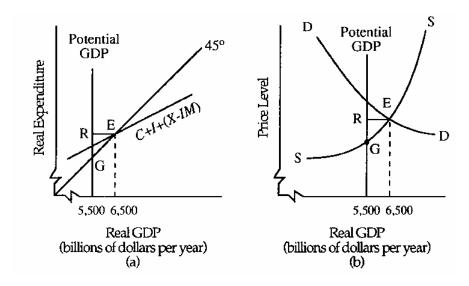
Figure 10-2



- \_ 83. In Figure 10-2, which segment of the aggregate supply curve has the smallest multiplier effect?
  - a. AB
  - b. BC
  - c. CD
  - d. DG
  - 84. In Figure 10-2, which segment of the aggregate supply curve has the largest multiplier effect?
    - a. AB
    - b. BC
    - c. CD
    - d. DG
  - 85. Assume an economy with an upward-sloping aggregate supply curve and an MPC of .80. An increase in investment spending of \$50 billion will increase total income by
    - a. \$200 billion.
    - b. \$40 billion.
    - c. more than \$200 billion.
    - d. more than \$50 billion but less than \$250 billion.
  - 86. The federal government increases spending by \$50 billion and the main effect is an increase in the price level. It must be true that the economy is operating on the
    - a. horizontal portion of the aggregate demand curve.
    - b. horizontal portion of the aggregate supply curve.
    - c. vertical portion of the aggregate supply curve.

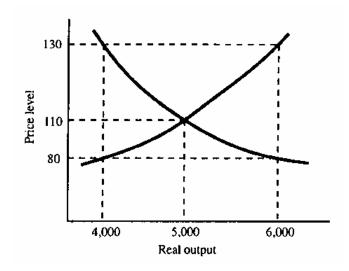
d. vertical portion of the aggregate demand curve.

Figure 10-3



- 87. In Figure 10-3, both graphs (a) and (b) indicate that the economy is experiencing a(n)
  - a. recessionary gap of RE.
  - b. recessionary gap of RG.
  - c. inflationary gap of RG.
  - d. inflationary gap of RE.
- 88. In Figure 10-3, we would expect the aggregate supply curve in graph (b) to
  - a. shift to the right, eliminating the recessionary gap.
  - b. shift to the left, eliminating the inflationary gap.
  - c. become steeper in the upper portion, eliminating the inflationary gap.
  - d. become flatter in the upper portion, eliminating the recessionary gap.
- 89. When the economy represented in Figure 10-3 has completed the self-correcting adjustment process, the expenditure line in graph (a) will be
  - a. flatter.
  - b. steeper.
  - c. higher.
  - d. lower.
  - e. unchanged.
- 90. How is it possible for the economy to have an inflationary gap?
  - a. Equilibrium is at a GDP level below full employment.
  - b. Equilibrium is at a GDP level equal to full employment.
  - c. Equilibrium is at a GDP level above full employment.
  - d. GDP is rising at full employment.
  - e. GDP is falling at full employment.
- 91. How is it possible for the economy to have a deflationary gap?
  - a. Equilibrium is at a GDP level below full employment.
  - b. Equilibrium is at a GDP level equal to full employment.
  - c. Equilibrium is at a GDP level above full employment.
  - d. GDP is rising at full employment.
  - e. GDP is falling at full employment.

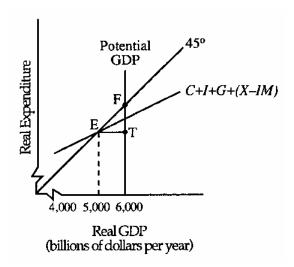
Figure 10-4



- 92. In Figure 10-4, if full employment occurs at 5,000 and the price level is currently 130, then we can expect the
  - a. aggregate supply curve to shift to the left until a new equilibrium is established at an output level of 4,000.
  - b. aggregate demand curve to shift to the right until a new equilibrium is established at an output level of 6,000.
  - c. the price level to fall to 110.
  - d. aggregate demand to shift to the left and aggregate supply to shift to the right until the price level reaches 130.
- 93. In Figure 10-4, if full employment occurs at an output level of 4,000 and the economy is currently at an output level of 5,000 then we can expect a(n)
  - a. increase in autonomous consumer spending that shifts the aggregate demand curve to the left.
  - b. increase in wages that will shift the aggregate supply curve to the left.
  - c. decrease in investment spending that shifts the aggregate demand curve to the left.
  - d. decrease in wages that will shift the aggregate supply curve to the left.
- 94. When you compare the effects of government spending on aggregate demand with the effects of taxes on aggregate demand, the effects of government spending are
  - a. smaller.
  - b. larger.
  - c. the same.
  - d. impossible to predict.
- 95. Taxes reduce total spending
  - a. directly by increasing government purchases by an equal amount.
  - b. directly by substituting investment spending.
  - c. indirectly by reducing government spending.
  - d. indirectly by reducing disposable income.
- 96. Why does a tax change affect aggregate demand?
  - a. A tax change alters saving by an equal amount.
  - b. A tax change alters imports and net exports.
  - c. A tax change alters government spending by an equal amount.
  - d. A tax change alters disposable income and consumption spending.

97.	If a state government reduces property taxes for residents at the same time that it increases the state income
	tax, what will happen to the expenditures schedule of the residents of this state?
	a. It shifts upward.
	b. It shifts downward.
	c. It becomes less steep.
	d. It becomes steeper.
	e. It does not change.
98.	An increase in taxes shifts the
	a. aggregate supply curve outward.
	b. aggregate demand curve outward.
	c. consumption schedule upward.
	d. consumption schedule downward.
 99.	When government spending is added to the basic macroeconomic model, the multiplier for G would
	a. be higher than the multiplier for autonomous spending.
	b. be lower than the multiplier for autonomous spending.
	c. be equal to the multiplier for autonomous spending.
	d. have no relationship to the autonomous spending multiplier.
 100.	During the period from 2001 to 2006, there will be several major cuts in personal income tax rates. What
	effect will these have on the value of the multiplier?
	a. They will decrease the value of the multiplier.
	b. They will have no effect on the multiplier.
	c. They will increase the value of the multiplier.
	d. The effect is uncertain.
101.	At the beginning of his administration, President Clinton increased personal income tax rates for some U.S.
	taxpayers. What effect did this have on the value of the multiplier?
	a. They decreased the value of the multiplier.
	b. They had no effect on the multiplier.
	c. They increased the value of the multiplier.
	d. The effect is uncertain.
102.	President Clinton, at the beginning of his administration, increased personal income taxes on individuals with
	relatively high incomes. How will this change the consumption schedule?
	a. It will shift and become steeper.
	b. It will shift and become flatter.
	c. It will shift in a parallel manner.
	d. It will remain fixed as the economy moves along the schedule.
103.	The Japanese economy is stuck in a recessionary gap. The proper fiscal policy could include a(n)
	a. decrease in taxes.
	b. increase in government purchases.
	c. increase in transfer payments.
	d. All of the above are correct.

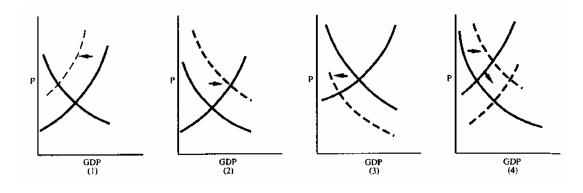
# Figure 11-1



- \_\_\_\_ 104. In Figure 11-1, the economy is experiencing a(n)
  - a. inflationary gap equal to EF.
  - b. inflationary gap equal to ET.
  - c. recessionary gap equal to ET.
  - d. recessionary gap equal to FT.
- \_\_\_\_ 105. In Figure 11-1, the slope of the expenditures schedule is .75 and the government wishes to achieve full employment. It should
  - a. cut spending by 1,000.
  - b. increase spending by 1,000.
  - c. cut taxes by 1,000.
  - d. increase spending by 250.
  - e. cut taxes by 250.
- \_\_\_\_ 106. In Figure 11-1, to achieve equilibrium at potential GDP the government could
  - a. increase taxes.
  - b. decrease transfer payments.
  - c. increase government purchases.
  - d. None of the above is correct.
- \_\_\_\_\_ 107. In Figure 11-1, to reach the level of potential GDP, the administration of President George W. Bush would advocate
  - a. increasing Social Security payments.
  - b. decreasing defense spending.
  - c. decreasing personal income taxes.
  - d. All of the above are correct.
- \_\_\_\_\_ 108. If the economy experiences an unplanned inventory accumulation at the full employment level of GDP, then the economy is in a(n)
  - a. inflationary gap.
  - b. hyperinflation.
  - c. recessionary gap.
  - d. full employment gap.
- \_\_\_\_ 109. After September 11, 2001, President George W. Bush believed in the need for a fiscal stimulus. The proper fiscal policy to reflect this could include a(n)
  - a. increase in taxes.
  - b. reduction in transfer payments.
  - c. increase in government purchases.

- d. All of the above are correct. 110. In 2000, many economists believed that the most serious macroeconomic problem confronting the U.S. economy was an inflationary gap. Which policies would be effective in dealing with this problem? a. Increase transfer payments. b. Increase government purchases. c. Decrease personal income taxes. d. Increase personal income taxes. A "conservative" would most likely argue in favor of a. tax increases when fiscal stimulus is necessary, and spending cuts when fiscal restraint is necessary. b. tax cuts when fiscal restraint is necessary, and spending cuts when fiscal stimulus is necessary. c. tax cuts when fiscal stimulus is necessary, and spending cuts when fiscal restraint is necessary. d. spending increases when fiscal expansion is necessary, and tax increases when fiscal stimulus is necessary. 112. A "liberal" would most likely argue in favor of a. tax increases when fiscal stimulus is necessary, and spending cuts when fiscal restraint is necessary. b. tax cuts when fiscal restraint is necessary, and spending cuts when fiscal stimulus is necessary. c. tax cuts when fiscal stimulus is necessary, and spending cuts when fiscal restraint is necessary. d. spending increases when fiscal expansion is necessary, and tax increases when fiscal restraint is necessary. 113. For liberals, the United States has a(n) a. public sector that is too large. b. private sector that is too small. c. economy that is too heavily regulated.
  - d. public sector that is too small.114. For conservatives, the United States needs
    - a. an expanded public sector to protect consumers.
    - b. a smaller public sector and less regulation.
    - c. a larger tax rate and more government spending.
    - d. more public goods and services, such as national health care.

Figure 11-2



115.	Which graph in Figure 11-2 best reflects a Keynesian view of the impact of a \$500-per-person tax cut?
	a. 1
	b. 2
	c. 3
	d. 4
116.	Which graph in Figure 11-2 best reflects a supply-sider's view of the impact of an increase in the personal income tax rate?
	a. 1
	b. 2
	c. 3
	d. 4
117.	Which graph in Figure 11-2 best reflects a Keynesian's view of the short-run impact of an increase in the personal income tax rate?
	a. 1
	b. 2
	c. 3
	d. 4
118.	Which graph in Figure 11-2 best reflects a Keynesian's view of the impact of raising taxes on saving?
	a. 1
	b. 2
	c. 3
	d. 4

#### **Essay**

- 119. Give some possible explanations of the productivity slowdown in the United States that occurred in the 1973-1995 period.
- 120. What is the marginal propensity to consume (MPC) and why is it important in predicting consumer behavior?
- 121. Which factors will cause the consumption function to shift? Which factors do not cause the function to shift?
- 122. Explain why it makes a difference if consumers consider a tax cut temporary rather than permanent. What does this explanation tell us about the importance of government credibility? Put this in the context of the 2001 tax cut favored by President Bush.
- 123. Carefully define the following terms and explain their importance in the study of macroeconomics:
  - a. expenditure schedule
  - b. saving schedule
  - c. equilibrium GDP
  - d. leakages schedule
  - e. injections schedule
- 124. Suppose the economy is suffering in a recessionary period. Firms are facing increasing inventories and individual consumers are increasing their saving to prepare for hard times ahead. What is likely to happen to the economy and can it correct itself and grow toward full employment in the short run?
- 125. The total expenditure schedule in Macroland begins with these initial levels (in billions of dollars): Income = 1,000; Consumption = 900; Investment = 200; Government = 300; Net Exports = -100. If the MPC = 0.75 and income increases in increments of 200, find the equilibrium level of income. If full employment requires an income level of 2,000, what (if anything) should the government do? Indicate both the direction of the spending change and the size of the spending change.

- 126. Distinguish between a movement along the aggregate supply curve and a shift of the entire aggregate supply curve. What factors cause each to occur?
- 127. Why is it possible that the economy will not self-correct out of a recessionary gap?
- 128. Using the aggregate demand/aggregate supply model, explain the difference in the employment prospects of the graduates of 2000 and 2002.
- 129. Define the following terms and explain their significance to the study of macroeconomics:
  - a. fiscal policy
  - b. transfer payments
  - c. effect of income taxes on the multiplier
  - d. supply-side tax cuts
- 130. Why does the numerical value of the multiplier fall when an income tax is added to the income-expenditure model?
- 131. Explain how a "conservative" and a "liberal" might differ in the types of policies they advocate to counteract a recessionary gap.
- 132. Why did President George W. Bush feel the need for a stimulus package for the U.S. economy after September 11, 2001? As a conservative, what type of fiscal stimulus would be most appealing to President Bush?
- 133. Discuss the pros and cons of supply-side fiscal policy. Is it an effective tool for closing recessionary gaps?

# MidtermII Answer Section

## TRUE/FALSE

1.	ANS:	T	DIF:	Easy	TOP:	Introduction
2.	ANS:	F	DIF:	Easy	TOP:	Introduction
3.	ANS:	F	DIF:	Moderate		
	TOP:	Aggregate De	mand, l	Domestic Produ	ıct, and	National Income;
4.	ANS:	T	DIF:	Easy		
	TOP:	Aggregate De	mand, l	Domestic Produ	ıct, and	National Income;
5.	ANS:	T	DIF:	Moderate	TOP:	Appendix: National Income Accounting
6.	ANS:	T	DIF:	Moderate	TOP:	Appendix: National Income Accounting
7.	ANS:	F	DIF:	Moderate	TOP:	Appendix: National Income Accounting
8.	ANS:	F	DIF:	Moderate	TOP:	Introduction
9.	ANS:	T	DIF:	Moderate	TOP:	Introduction
10.	ANS:	T	DIF:	Easy	TOP:	The Meaning of Equilibrium GDP
11.	ANS:	F	DIF:	Easy	TOP:	The Aggregate Supply Curve
12.	ANS:	F	DIF:	Moderate	TOP:	The Aggregate Supply Curve
13.	ANS:	F	DIF:	Moderate	TOP:	Applying the Model to a Growing Economy
14.	ANS:	T	DIF:	Easy	TOP:	Introduction
15.	ANS:	F	DIF:	Easy	TOP:	Introduction
16.	ANS:	F	DIF:	Moderate	TOP:	Income Taxes and the Consumption Schedule
17.	ANS:	T	DIF:	Moderate	TOP:	Income Taxes and the Consumption Schedule

## MULTIPLE CHOICE

18.	ANS:	D DIF:	Easy	TOP:	The Three Pillars Of Productivity Growth
19.	ANS:	D DIF:	Easy	TOP:	The Three Pillars Of Productivity Growth
20.	ANS:	D DIF:	Moderate	TOP:	The Three Pillars Of Productivity Growth
21.	ANS:	A DIF:	Moderate	TOP:	The Three Pillars Of Productivity Growth
22.	ANS:	D DIF:	Moderate	TOP:	Introduction
23.	ANS:	B DIF:	Moderate	TOP:	Introduction
24.	ANS:	D DIF:	Easy		
	TOP:	Aggregate Demand,	Domestic Prod	luct, and	National Income;
25.	ANS:	C DIF:	Moderate		
	TOP:	Aggregate Demand,	Domestic Prod	luct, and	National Income;
26.	ANS:	C DIF:	Easy		
	TOP:	Aggregate Demand,	Domestic Prod	luct, and	National Income;
27.	ANS:	B DIF:	Easy		
	TOP:	Aggregate Demand,	Domestic Prod	luct, and	National Income;
28.	ANS:	A DIF:	Easy		
	TOP:	Aggregate Demand,	Domestic Prod	luct, and	National Income;
29.	ANS:	E DIF:	Moderate		
	TOP:	Aggregate Demand,	Domestic Prod	luct, and	National Income;
30.	ANS:	B DIF:	Easy		

```
TOP: Aggregate Demand, Domestic Product, and National Income;
31. ANS: B
                       DIF: Moderate
    TOP: Aggregate Demand, Domestic Product, and National Income;
32. ANS: A
                       DIF: Moderate
    TOP: Aggregate Demand, Domestic Product, and National Income;
33. ANS: C
                       DIF: Moderate
    TOP: Aggregate Demand, Domestic Product, and National Income;
34. ANS: A
                       DIF: Moderate
    TOP: Aggregate Demand, Domestic Product, and National Income;
35. ANS: C
                       DIF: Moderate
    TOP: Aggregate Demand, Domestic Product, and National Income;
36. ANS: B
                       DIF: Moderate
    TOP: Aggregate Demand, Domestic Product, and National Income;
37. ANS: D
                       DIF: Moderate
    TOP: Aggregate Demand, Domestic Product, and National Income;
                       DIF: Difficult
38. ANS: C
    TOP: Aggregate Demand, Domestic Product, and National Income;
                       DIF: Difficult
39. ANS: A
    TOP: Aggregate Demand, Domestic Product, and National Income;
                       DIF: Moderate
40. ANS: C
    TOP: Aggregate Demand, Domestic Product, and National Income;
41. ANS: B
                       DIF: Easy
    TOP: Aggregate Demand, Domestic Product, and National Income;
                       DIF: Moderate
42. ANS: E
    TOP: Aggregate Demand, Domestic Product, and National Income;
43. ANS: D
                       DIF: Moderate
    TOP: Aggregate Demand, Domestic Product, and National Income;
44. ANS: A
                       DIF: Moderate
    TOP: Aggregate Demand, Domestic Product, and National Income;
45. ANS: C
                       DIF: Moderate
    TOP: Aggregate Demand, Domestic Product, and National Income;
                       DIF: Difficult
46. ANS: D
    TOP: Aggregate Demand, Domestic Product, and National Income;
47. ANS: D
                       DIF: Difficult
    TOP: Aggregate Demand, Domestic Product, and National Income;
                       DIF: Difficult
48. ANS: D
    TOP: Aggregate Demand, Domestic Product, and National Income;
49. ANS: B
                       DIF: Moderate
    TOP: Aggregate Demand, Domestic Product, and National Income;
50. ANS: A
                       DIF: Moderate
    TOP: Aggregate Demand, Domestic Product, and National Income;
51. ANS: B
                       DIF: Moderate
                                          TOP: Factors that Shift the Consumption Function
                       DIF: Moderate
                                          TOP: Factors that Shift the Consumption Function
52. ANS: A
53. ANS: C
                       DIF: Moderate
                                          TOP: Factors that Shift the Consumption Function
54. ANS: B
                       DIF: Moderate
                                          TOP: Factors that Shift the Consumption Function
55. ANS: D
                                          TOP: Factors that Shift the Consumption Function
                       DIF: Moderate
56. ANS: D
                       DIF: Moderate
                                          TOP: Factors that Shift the Consumption Function
                       DIF: Moderate
                                          TOP: Factors that Shift the Consumption Function
57. ANS: D
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58. ANS: B
                         DIF:
                               Moderate
                                            TOP: Factors that Shift the Consumption Function
 59. ANS: E
                         DIF:
                               Easy
                                            TOP: Introduction
 60. ANS: B
                         DIF:
                               Easy
                                            TOP: Introduction
 61. ANS: B
                         DIF:
                               Moderate
                                            TOP: Introduction
 62. ANS: A
                         DIF:
                               Moderate
                                            TOP: The Meaning of Equilibrium GDP
 63. ANS: D
                         DIF:
                               Moderate
                                            TOP: The Meaning of Equilibrium GDP
 64. ANS: D
                         DIF:
                               Moderate
                                            TOP: The Meaning of Equilibrium GDP
 65. ANS: C
                         DIF:
                               Moderate
                                            TOP: The Meaning of Equilibrium GDP
                                            TOP: Demystifying the Multiplier: How It Works
 66. ANS: B
                         DIF:
                               Moderate
                                            TOP: Demystifying the Multiplier: How It Works
 67. ANS: C
                         DIF:
                               Moderate
 68. ANS: E
                         DIF:
                               Difficult
                                            TOP: Demystifying the Multiplier: How It Works
 69. ANS: C
                         DIF:
                               Difficult
                                            TOP: Demystifying the Multiplier: How It Works
 70. ANS: B
                                            TOP: Demand-Side Equilibrium and Full Employment
                         DIF:
                               Difficult
 71. ANS: D
                         DIF:
                               Easy
                                            TOP: Demand-Side Equilibrium and Full Employment
 72. ANS: D
                         DIF:
                               Easy
                                            TOP: Introduction
 73. ANS: D
                         DIF:
                                            TOP: Introduction
                               Easy
 74. ANS: A
                                            TOP: Introduction
                         DIF:
                               Moderate
 75. ANS: A
                         DIF:
                               Moderate
                                            TOP: The Aggregate Supply Curve
 76. ANS: C
                                            TOP: The Aggregate Supply Curve
                         DIF:
                               Moderate
 77. ANS: D
                               Moderate
                                            TOP: The Aggregate Supply Curve
                         DIF:
 78. ANS: D
                         DIF:
                               Moderate
                                            TOP: The Aggregate Supply Curve
 79. ANS: C
                                            TOP: The Aggregate Supply Curve
                         DIF:
                               Moderate
 80. ANS: A
                                            TOP: The Aggregate Supply Curve
                         DIF:
                               Moderate
 81. ANS: B
                         DIF:
                               Moderate
                                            TOP: The Aggregate Supply Curve
 82. ANS: D
                         DIF:
                               Moderate
                                            TOP: The Aggregate Supply Curve
 83. ANS: D
                               Moderate
                                            TOP: Inflation and the Multiplier
                         DIF:
 84. ANS: A
                         DIF:
                               Moderate
                                            TOP: Inflation and the Multiplier
 85. ANS: D
                         DIF:
                               Difficult
                                            TOP: Inflation and the Multiplier
 86. ANS: C
                         DIF:
                               Moderate
                                            TOP: Inflation and the Multiplier
 87. ANS: D
                               Difficult
                                            TOP: Recessionary and Inflationary Gaps Revisited
                         DIF:
 88. ANS: B
                               Moderate
                                            TOP: Recessionary and Inflationary Gaps Revisited
                         DIF:
 89. ANS: D
                         DIF:
                               Moderate
                                            TOP: Recessionary and Inflationary Gaps Revisited
 90. ANS: C
                         DIF:
                               Easy
                                            TOP: Recessionary and Inflationary Gaps Revisited
 91. ANS: A
                         DIF:
                               Easy
                                            TOP: Recessionary and Inflationary Gaps Revisited
 92. ANS: C
                         DIF:
                               Difficult
     TOP: Adjusting to a Recessionary Gap: Deflation or Unemployment?
 93. ANS: B
                         DIF:
                               Difficult
     TOP: Adjusting to a Recessionary Gap: Deflation or Unemployment?
 94. ANS: B
                         DIF:
                                            TOP: Income Taxes and the Consumption Schedule
                               Moderate
                               Moderate
 95. ANS: D
                         DIF:
                                            TOP: Income Taxes and the Consumption Schedule
 96. ANS: D
                         DIF:
                               Moderate
                                            TOP: Income Taxes and the Consumption Schedule
 97. ANS: D
                         DIF:
                               Moderate
                                            TOP: Income Taxes and the Consumption Schedule
 98. ANS: D
                         DIF:
                               Moderate
                                            TOP: The Multiplier Revisited
 99. ANS: C
                                            TOP: The Multiplier Revisited
                         DIF:
                               Moderate
100. ANS: C
                         DIF:
                               Moderate
                                            TOP: The Multiplier Revisited
                                            TOP: The Multiplier Revisited
101. ANS: A
                         DIF:
                               Moderate
102. ANS: B
                         DIF:
                               Difficult
                                            TOP: The Multiplier Revisited
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103.	ANS:	D	DIF:	Moderate	TOP:	Planning Expansionary Fiscal Policy
104.	ANS:	C	DIF:	Easy	TOP:	Planning Expansionary Fiscal Policy
105.	ANS:	D	DIF:	Moderate		Planning Expansionary Fiscal Policy
106.	ANS:	C	DIF:	Easy	TOP:	Planning Expansionary Fiscal Policy
107.	ANS:	C	DIF:	Moderate	TOP:	Planning Expansionary Fiscal Policy
108.	ANS:	C	DIF:	Moderate	TOP:	Planning Expansionary Fiscal Policy
109.	ANS:	C	DIF:	Moderate	TOP:	Planning Expansionary Fiscal Policy
110.	ANS:	D	DIF:	Moderate	TOP:	Planning Contractionary Fiscal Policy
111.	ANS:	C	DIF:	Difficult	TOP:	The Choice between Spending Policy and Tax Policy
112.	ANS:	D	DIF:	Difficult	TOP:	The Choice between Spending Policy and Tax Policy
113.	ANS:	D	DIF:	Easy	TOP:	The Choice between Spending Policy and Tax Policy
114.	ANS:	В	DIF:	Easy	TOP:	The Choice between Spending Policy and Tax Policy
115.	ANS:	В	DIF:	Moderate	TOP:	The Idea Behind Supply-Side Tax Cuts
116.	ANS:	A	DIF:	Moderate	TOP:	The Idea Behind Supply-Side Tax Cuts
117.	ANS:	C	DIF:	Moderate	TOP:	The Idea Behind Supply-Side Tax Cuts
118.	ANS:	В	DIF:	Moderate	TOP:	The Idea Behind Supply-Side Tax Cuts

#### **ESSAY**

#### 119. ANS:

Several possible explanations have been offered for the slowdown in labor productivity that hit the United States in 1973. One of the most common explanations is the increasing price of energy caused by the OPEC policies of the 1970s. However, this explanation has some flaws since energy prices fell in the 1980s, but productivity did not improve during that period. Another suggested explanation was the decline in labor force quality. Proponents of this argument point to the declines in SAT scores that occurred after the late 1960s. However, other indicators of labor force quality such as school attendance and graduation rates increased during this same time period. The best explanation seems to be a technology lag caused by the time period needed by businesses to realize the benefits of technological innovations produced in the 1970s and the 1980s. Such innovations as the personal computer and the Internet took some time to show a payoff in labor force productivity. An interesting analogy is the development of electric power early in the twentieth century. It took at least two decades for business leaders to realize the best ways to use electricity to increase their productivity. So it seems there might have been a similar "lag" in productivity increases during the 1970s and 1980s while businesses were figuring out the best ways to use all the advances in information technology and other innovations.

DIF: Moderate

#### 120. ANS:

The marginal propensity to consume is the ratio of the change in consumption spending to the change in disposable income. The value of the MPC typically is less than one because when consumers receive an increase in income, their spending does not increase as much as income. For the United States, statistical estimates yield an MPC of approximately 0.90. If one knows the MPC, then predictions can be made of how much consumer spending will increase when disposable income increases by a certain amount. This is especially useful with regard to tax changes. If the federal government intends to increase aggregate demand through decreasing taxes, then knowing the MPC is necessary. For example, if the desired increase in consumer spending is \$450 million and the MPC is .90, then taxes must be reduced by \$500 million.

DIF: Moderate

121. ANS:

The principal factors that will cause the consumption function to shift are: changes in wealth; changes in the price level; and changes in consumer expectations. If wealth increases, then more consumption is possible at the same level of income. If the price level changes, fixed money assets change in value. When prices rise, fixed money assets decrease in value and consumption will decrease. As consumers become more optimistic, they will tend to spend more even if their current income is not changing. The only factor that will not shift the consumption function is disposable income. When disposable income changes, you move up or down a consumption function depending on the direction of change. If disposable income increases, then one moves up along the consumption function.

DIF: Easy

### 122. ANS:

Consumers tend to base their spending decisions on their expectations of long-run income. Short-term or one-time-only income changes have little effect on consumer behavior. If tax cuts are perceived as only temporary, then consumers will use less of the additional disposable income for spending on goods and services and may use a major portion of the temporary income increase for saving. Tax cuts that are perceived as permanent will change consumers' expectations regarding their future income more significantly. This change in expected future income will make consumers feel more comfortable about increasing their current spending. If government policy makers wish to increase aggregate demand by cutting taxes and they hope the tax cut will significantly increase consumer spending, then the public will have to believe that the government pledge to leave the tax cut in place is honest. If the public mistrusts the government and believes a current tax cut may soon be cancelled or reversed, then consumers may not change their spending habits in any significant way. This mistrust will render tax policy ineffective and remove a powerful tool from those available to a government. In 2001, taxpayers mistakenly assumed that the tax cut was only temporary and not permanent as it actually was. Because they assumed the tax cut was only temporary, the tax cut did not have the stimulative effect on aggregate demand that the Bush administration was hoping for.

DIF: Difficult

#### 123. ANS:

- a. The *expenditure schedule* shows the relationship between national income (GDP) and total spending. The components of spending are consumption, investment, government spending, and net exports. This is the demand side of the economy.
- b. The *saving schedule* indicates the level of total saving for the economy at various levels of disposable income. It can be derived from the consumption schedule. Because disposable income is either consumed or saved, the saving schedule can be computed as S = DI C where S = saving schedule, DI = disposable income, and C = consumption schedule.
- c. *Equilibrium GDP* refers to a condition in which neither consumers nor business firms have any incentive to change their behavior. They are content with things as they are. The economy tends to move toward an equilibrium, or to remain at equilibrium, unless some underlying variable changes.
- d. The *leakages schedule* indicates the level of leakages from the flow of income and spending at various levels of disposable income. Leakages include saving, taxes, and imports.
- e. The *injections schedule* indicates the level of injections into the flow of income and spending at various levels of disposable income. Injections include investment spending, government spending, and exports. At equilibrium GDP the level of leakages must equal the level of injections.

DIF: Moderate

124. ANS:

The Keynesian view of the economy would conclude that the economy would remain in a recession and would not automatically correct itself. In fact, the economy may fall further into recession if businesses cut investment and consumers continue to increase saving, thus cutting consumption spending. Apart from a significant fall in the price level, no automatic forces exists to pump up the economy toward full employment in the short run.

DIF: Difficult

#### 125. ANS:

Initially, total expenditures equal 1,300 when income equals 1,000. Therefore, equilibrium income will be higher (excess expenditures exist at the 1,000 income level). Each \$200 increase in income results in a \$150 increase in expenditures (\$200 x the MPC of 0.75). At an income of \$2,200, consumption is \$1,800 and total expenditures are \$2,200. If full employment income is \$2,000, then an inflationary gap exists and expenditures must be cut. By trial and error it can be calculated that government spending must be cut from \$300 by \$50 to \$250. At the full employment level of income of \$2,000, Consumption will be \$1,650, Investment = 200, Government = \$250, and Net Exports = -\$100.

DIF: Moderate

#### 126. ANS:

The aggregate supply curve is analogous to an individual firm's supply curve in microeconomic analysis. A change in the economy's price level will cause a movement along the aggregate supply curve. A change in one of the determinants of aggregate supply will cause a shift of the aggregate supply curve. Among the most important determinants are the level of money wages, other resource prices, and the level of technology and productivity.

DIF: Easy

## 127. ANS:

Unlike the case of an inflationary gap, a recessionary gap requires falling prices and wages for the economy to self-correct. Wages, the price of labor, have a downward rigidity that prevents rapid decreases necessary to reach a new level of equilibrium price level. If money wages do not fall, the aggregate supply curve will not shift outward. Although self-correction is inevitable, it may take so long that citizens and policy makers may lose patience and promote active stabilization policy measures.

DIF: Moderate

## 128. ANS:

The graduates of 2000 were facing an economy where both the aggregate demand and aggregate supply curves were shifting outwards leading to increasing real GDP, lower unemployment rates, and a high demand for labor. This position was heading in the direction of an inflationary gap, illustrated by the increasing salaries and bonuses received by the lucky graduates of 2000. In contrast, the graduates of 2002 were facing a situation where the aggregate demand curve was shifting inwards, creating conditions more similar to a recessionary gap. This signaled a decrease in real GDP, increasing unemployment rates and lower salary offers and the virtual disappearance of bonuses and other signs of a seller's labor market.

DIF: Moderate

#### 129. ANS:

- a. *Fiscal policy* is the federal government's plan for tax revenues, spending, and transfer payments. It is designed to change aggregate demand in a desired direction. Fiscal policy is a tool that government has to affect the economy.
- b. *Transfer payments* are payments made by governments to individuals that is not payment for work done or goods and services supplied. Economists consider transfer payments to be negative taxes. An increase in transfer payments is equivalent to a decrease in taxes.

- c. When *income taxes* are added to the income-expenditure model, the numerical value of the *multiplier* is reduced. The consumption line will become flatter since some of the increases in income will flow to the government, and therefore, reduce disposable income available for spending.
- d. Supply-side tax cuts are based on the premise that certain tax cuts will increase the aggregate supply curve. Tax cuts on saving, capital gains, and personal income are expected to increase incentives to save, accumulate capital, and work are supposed to shift the aggregate supply curve outward.

DIF: Easy

## 130. ANS:

An income tax causes a portion of any increase in income to be taken away in taxes. This amount of taxes is therefore not available to be added back into the flow of spending and income. Each round of spending and income will be smaller because of this "leakage" effect of taxes. The total effect of a change in spending is thus reduced by the fact that each increase in income is reduced by the amount of taxes taken out before the next round of spending can occur.

DIF: Moderate

#### 131. ANS:

Conservatives tend to want a smaller government sector. In such a case, expansionary fiscal policy would take the form of tax cuts. This would diminish the size of the government's share of total income. The aggregate demand curve would shift outward due to an increase in private spending, namely consumers and businesses. Liberals usually tend to favor an expanded government sector. In such a case, expansionary fiscal policy would call for an increase in government spending. This increase in the government's share of the economy would shift the aggregate demand curve outward by increasing the production of public goods and services, such as education or public health care.

DIF: Moderate

#### 132. ANS:

The decline in real GDP and the existence of rising unemployment indicated that a recessionary gap was developing in the U.S. economy. To combat this macroeconomic condition, some kind of fiscal policy to stimulate aggregate demand was needed. To shift the expenditures schedule upward and shift the aggregate demand curve outward was what was called for. As a conservative and a Republican, it was consistent for President Bush to advocate a tax cut that would stimulate consumption spending. This increase in spending would come from the private sector, reflecting the belief of conservatives that the private sector should expand and the public sector should get smaller.

DIF: Moderate

### 133. ANS:

The primary benefits of supply-side fiscal policy are related to long-term economic growth. Reducing taxes encourages the investment and capital formation needed to spur economic growth. While supply-side fiscal policy may boost GDP without increasing inflation, in practice, these tax cuts do in fact affect aggregate demand. The supply-side effects of this type of policy appear only after a long period of time, whereas the demand-side effect are immediate.

One drawback of supply-side tax cuts is that they worsen income distribution because they benefit the wealthy households and businesses. Also, because this type of policy works through affecting the incentives of businesses and households, it is very imprecise. Not only does it take time for the supply-side tax cuts to increase aggregate supply, but the ultimate impact is difficult to measure. For these reasons, supply-side fiscal policy is probably not an effective stabilization tool for fiscal policy. The primary benefits are longer-term in nature.

DIF: Moderate