Chapter 30

Put into practice questions

Chapter 30

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Consider the diagram below where the economy moves from equilibrium at A to B

The most likely cause of this movement from A to B is an increase in consumer confidence

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The change in equilibrium in the economy is most likely to have been caused by:

Answer: A major fall in the exchange rate

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Which one of the following macroeconomic policies is a Keynesian economist most likely to recommend as to bring about a recovery in an economy that has been in a recession?

- Increasing government expenditure financed by increased government borrowing. CORRECT
- Cutting government expenditure to balance its budget.
- Increasing taxes to finance increased government expenditure.
- Increasing the money supply to maintain very low interest rates

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Show the effect of an increase in the aggregate supply on the equilibrium price and output in the economy.

A fall in price and an increase in quantity. Most of the effect will be on price**.**

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Which one (s) of the following would be an appropriate response to reduce demand-pull inflation?
Explain your answer.

• Lower corporation tax rates. FALSE-increases demand
• Higher interest rates. TRUE

- Increased government spending. FALSE- increases demand
- Higher income taxation rates. TRUE- reduces demand