

MULTIPLE CHOICE (2 points each)

1. d
2. d
3. a
4. d
5. c
6. a
7. c
8. c
9. e
10. b
11. c
12. d
13. c
14. b
15. c
16. c
17. b
18. d
19. d
20. d

TRUE/FALSE (1 point each)

1. T
2. T
3. F
4. F
5. F

**SHORT ANSWER
APPLICATION/SCENARIO**

1. ANSWER: To lower inflation, the government may choose to reduce the money supply in the economy. When the money supply is reduced, prices don't adjust immediately. Lower spending combined with prices, which are too high, reduces sales and causes workers to be laid off. Hence, the lower price level is associated with higher unemployment. (5 points)

2. ANSWER: (10 points)

