These are some practice questions for CHAPTER 22. Each question should have a single answer. But be careful. There may be errors in the answer key!

42. With respect to consumption, investment, government purchases and net exports, the national income accounts measure
   a. actual expenditures in each of the categories.
   b. desired expenditures in each of the categories.
   c. both actual and desired expenditures, since actual expenditure must equal desired expenditure in each category.
   d. neither actual nor desired expenditures.

43. In a simple macroeconomic model, with a closed economy and no government, the aggregate expenditure function is the sum of
   a. desired consumption and desired investment.
   b. saving and desired investment.
   c. consumption and disposable income.
   d. consumption and saving.
   e. actual consumption and actual investment.

44. Undesired inventory accumulation occurs when
   a. consumption exceeds investment.
   b. investment exceeds consumption.
   c. autonomous expenditure exceeds induced expenditure.
   d. desired expenditure exceeds actual expenditure.
   e. actual expenditure exceeds desired expenditure.

45. The consumption function in the basic model of national income determination is known as the
   a. life-cycle theory.
   b. permanent-income theory.
   c. Friedman consumption function.
   d. Modigliani consumption function.
   e. Keynesian consumption function.

46. "The marginal propensity to consume" refers to the additional
   a. saving that occurs out of an additional dollar of disposable income.
   b. consumption that occurs out of an additional dollar of disposable income.
   c. consumption that occurs out of an additional dollar of investment.
   d. consumption caused by a change in tastes.
   e. consumption that occurs over time.
47. If a representative family's disposable income rose from $40,000 per year to $42,000 and their desired consumption expenditures rose from $38,000 to $39,600, it can be concluded that the
   a. average propensity to consume is 0.8.
   b. average propensity to save is 0.8.
   c. marginal propensity to consume is $800.
   d. marginal propensity to consume is 0.8.
   e. marginal propensity to save is 0.8.

48. Increased wealth
   a. causes no change in consumption because consumption is a function of disposable income only.
   b. causes no change in consumption because the increase is always expected.
   c. causes a downward shift in the consumption function.
   d. causes an upward shift in the consumption function.
   e. only affects saving, not consumption.

49. If a representative family's disposable income increases from $1200 to $1700 and their desired saving increases from -$100 to +$100, then the family's
   a. average propensity to consume is 0.60.
   b. average propensity to consume is 0.40.
   c. marginal propensity to consume is 0.40.
   d. marginal propensity to consume is 0.60.
   e. marginal propensity to save is 1.

50. Investment expenditure is the _____ volatile component of GDP, and changes in investment are _____ associated with the business cycle.
   a. most; strongly
   b. most; weakly
   c. least; strongly
   d. least; weakly

51. Higher interest rates
   a. increase every component of desired investment expenditure.
   b. reduce every component of desired investment expenditure.
   c. reduce every component of desired investment expenditure except residential housing.
   d. reduce every component of desired investment expenditure except inventories.
   e. reduce every component of desired investment expenditure except plant and equipment.
52. An increase in the marginal propensity to spend out of national income will cause
a. a movement to the right along the AE curve.
b. a movement to the left along the AE curve.
c. an increase in the slope of the AE curve which rotates it upward.
d. a decrease in the slope of the AE curve which rotates it downward.
e. a parallel upward shift in the AE curve.

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TABLE 22-1
Consider the following information describing a closed economy with no government:
1. equilibrium condition is \( Y = C + I \)
2. \( MPS = 0.25 \)
3. the autonomous part of \( C \) is $30
4. Investment is autonomous and equals $40

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53. Refer to Table 22-1. At the equilibrium level of national income, consumption expenditure will be
a. $30.
b. $110.
c. $240.
d. $280.

54. At the equilibrium level of national income,
a. consumers' purchases of goods and services equal firms' purchases of investment goods.
b. firms will hold no inventories of raw materials or final goods.
c. desired aggregate expenditures will always equal total output.
d. desired aggregate expenditures will equal total output minus inventory holdings.
e. none of the above

55. In a simple model of the economy, with no government and no foreign trade, the equilibrium level of national income is NOT the level of income at which
a. the AE curve intersects the 45-degree line.
b. aggregate desired expenditure equals actual national income.
c. aggregate desired expenditure equals the value of total output.
d. saving equals income.
e. saving equals investment.
56. In a simple model of the economy, with no government and no foreign trade, the difference between actual national income and desired aggregate expenditure equals
a. consumption minus savings.
b. consumption minus desired investment.
c. desired investment.
d. savings.
e. savings minus desired investment.

57. Suppose $S = -200 + 0.1Y$, and $I = 400$. Equilibrium income is
a. 200.
b. 400.
c. 2000.
d. 4000.
e. 6000.

58. Suppose $S = -200 + 0.1Y$, and $I = 400$. If income is presently at 3000 we can say that, ceteris paribus,
a. consumption will decrease.
b. national income will rise toward equilibrium.
c. national income is in equilibrium.
d. national income will decrease toward equilibrium.
e. savings will decrease.

59. Suppose $S = -200 + 0.1Y$. Equilibrium income would be 5000 if $I$ were
a. -200.
b. -300.
c. +200.
d. +300.
e. +700.
60. In Figure 22-2, assuming $AE_0$ to be the prevailing aggregate expenditure function, at a level of national income equal to $Y_3$ we can state that

a. consumption is greater than aggregate expenditure.
b. consumption is less than aggregate expenditure.
c. aggregate expenditure is greater than output.
d. aggregate expenditure is less than output.
e. savings is less than zero.

FIGURE 22-2
61. According to Figure 22-2, if national income is $Y_1$, and aggregate expenditure is $AE_1$, then desired aggregate expenditure
a. exceeds income and income must rise.
b. exceeds income and income must fall.
c. is less than income and income must rise.
d. is less than income and income must fall.
e. is equal to income and will not change.

![Diagram of AE and Y](image)

**FIGURE 22-2**

62. If "z" is the marginal propensity to spend out of national income, "Y" is national income and "A" is autonomous expenditure then the simple multiplier ($K$) can be expressed as
a. $K = z$
b. $K = 1 - z$
c. $K = 1/z$
d. $K = 1/(1 - z)$
e. $K = Y/z$

63. The smaller the marginal propensity to spend, the
a. larger the MPC.
b. smaller the MPS.
c. smaller the multiplier.
d. larger the multiplier.
e. greater is investment.
64. The multiplier is smaller, the  
a. higher the level of autonomous expenditures.  
b. steeper the slope of the AE function.  
c. flatter the slope of the AE function.  
d. lower the APC.  
e. lower the level of autonomous expenditures.

65. If the business community decreases its investment expenditures by $4 billion, causing equilibrium national income to fall by $12 billion, the marginal propensity to spend is 
a. 4/5.  
b. 2/3.  
c. 1/3.  
d. 1/2.  
e. 2/5.

66. If the simple multiplier is 4 and there is a $10 billion increase in investment spending, then equilibrium income will _____ and the marginal propensity to spend equals _____.  
a. decrease by $40 billion; 0.75  
b. decrease by $10 billion; 0.25  
c. increase by $10 billion; 0.25  
d. increase by $40 billion; 0.75  
e. none of the above.
42. a
43. a
44. e
45. e
46. b
47. d
48. d
49. d
50. a
51. b
52. c
53. c
54. c
55. d
56. e
57. e
58. b
59. d
60. d
61. a
62. d
63. c
64. c
65. b
66. d