

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
- average propensity to consume is 0.8.
  - average propensity to save is 0.8.
  - marginal propensity to consume is \$800.
  - marginal propensity to consume is 0.8.
  - marginal propensity to save is 0.8.
48. Increased wealth
- causes no change in consumption because consumption is a function of disposable income only.
  - causes no change in consumption because the increase is always expected.
  - causes a downward shift in the consumption function.
  - causes an upward shift in the consumption function.
  - 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
- average propensity to consume is 0.60.
  - average propensity to consume is 0.40.
  - marginal propensity to consume is 0.40.
  - marginal propensity to consume is 0.60.
  - 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.
- most; strongly
  - most; weakly
  - least; strongly
  - least; weakly
51. Higher interest rates
- increase every component of desired investment expenditure.
  - reduce every component of desired investment expenditure.
  - reduce every component of desired investment expenditure except residential housing.
  - reduce every component of desired investment expenditure except inventories.
  - 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 movement to the right along the *AE* curve.
  - a movement to the left along the *AE* curve.
  - an increase in the slope of the *AE* curve which rotates it upward.
  - a decrease in the slope of the *AE* curve which rotates it downward.
  - 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:*

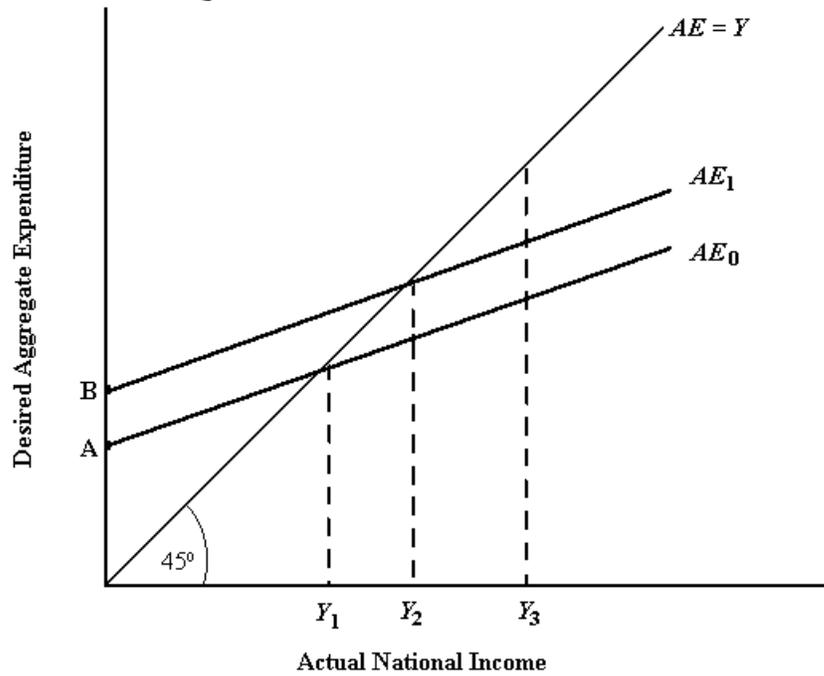
- equilibrium condition is  $Y = C + I$
- $MPS = 0.25$
- the autonomous part of  $C$  is \$30
- Investment is autonomous and equals \$40

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53. Refer to Table 22-1. At the equilibrium level of national income, consumption expenditure will be
- \$ 30.
  - \$110.
  - \$240.
  - \$280.
54. At the equilibrium level of national income,
- consumers' purchases of goods and services equal firms' purchases of investment goods.
  - firms will hold no inventories of raw materials or final goods.
  - desired aggregate expenditures will always equal total output.
  - desired aggregate expenditures will equal total output minus inventory holdings.
  - 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
- the *AE* curve intersects the 45-degree line.
  - aggregate desired expenditure equals actual national income.
  - aggregate desired expenditure equals the value of total output.
  - saving equals income.
  - saving equals investment.

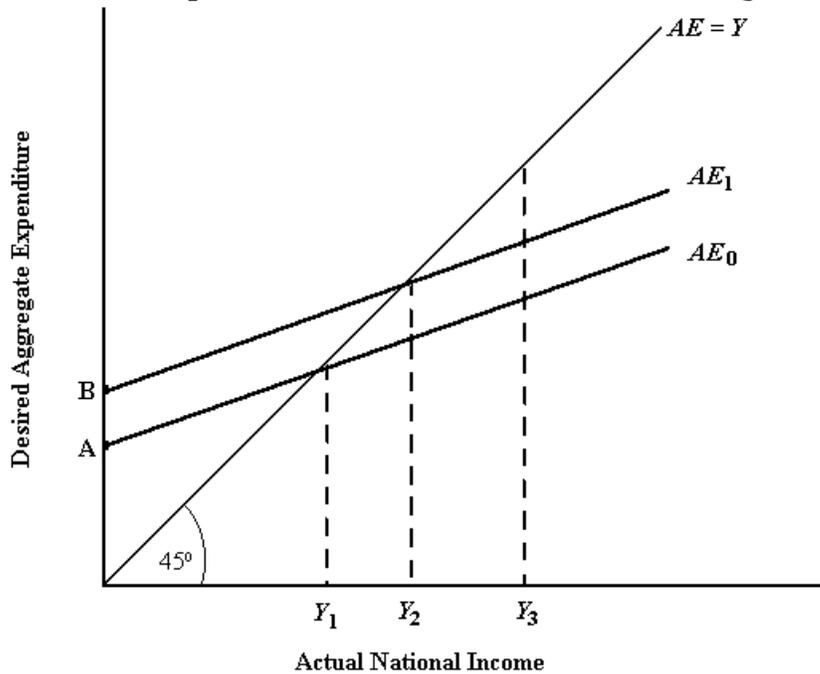
56. In a simple model of the economy, with no government and no foreign trade, the difference between actual national income and desired aggregate expenditure equals
- consumption minus savings.
  - consumption minus desired investment.
  - desired investment.
  - savings.
  - savings minus desired investment.
57. Suppose  $S = -200 + 0.1Y$ , and  $I = 400$ . Equilibrium income is
- 200.
  - 400.
  - 2000.
  - 4000.
  - 6000.
58. Suppose  $S = -200 + 0.1Y$ , and  $I = 400$ . If income is presently at 3000 we can say that, *ceteris paribus*,
- consumption will decrease.
  - national income will rise toward equilibrium.
  - national income is in equilibrium.
  - national income will decrease toward equilibrium.
  - savings will decrease
59. Suppose  $S = -200 + 0.1Y$ . Equilibrium income would be 5000 if  $I$  were
- 200.
  - 300.
  - +200.
  - +300.
  - +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
- exceeds income and income must rise.
  - exceeds income and income must fall.
  - is less than income and income must rise.
  - is less than income and income must fall.
  - is equal to income and will not change.



**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
- $K = z$
  - $K = 1 - z$ .
  - $K = 1/z$ .
  - $K = 1/(1 - z)$ .
  - $K = Y/z$ .
63. The smaller the marginal propensity to spend, the
- larger the  $MPC$ .
  - smaller the  $MPS$ .
  - smaller the multiplier.
  - larger the multiplier.
  - 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 national 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