

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.

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

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
- consumption is greater than aggregate expenditure.
 - consumption is less than aggregate expenditure.
 - aggregate expenditure is greater than output.
 - aggregate expenditure is less than output.
 - savings is less than zero.

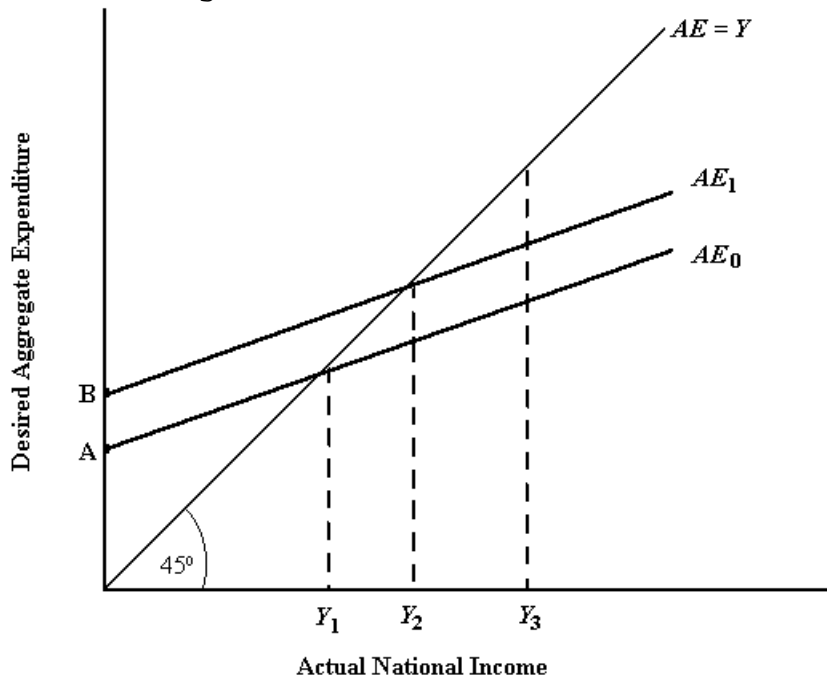


FIGURE 22-2

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.

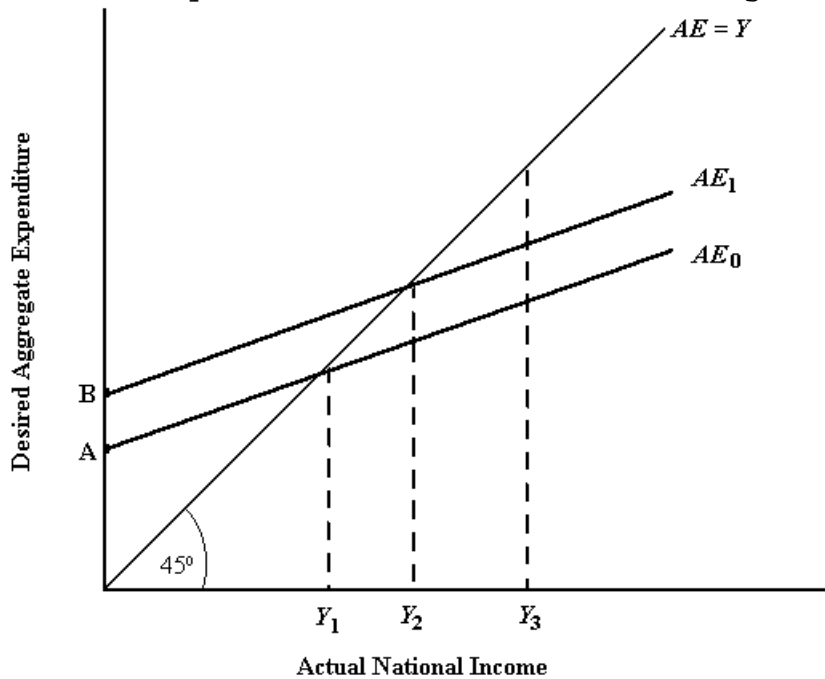


FIGURE 22-2

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