

Chapter 12

Consumption, Real GDP, and the Multiplier

12.1 Some Simplifying Assumptions in a Keynesian Model

- 1) Which of the following is NOT a simplifying assumption in the simple Keynesian model?
- A) Net investment and gross investment are equal.
 - B) All profits are distributed to the business owners.
 - C) Real disposable income equals government purchases of goods and services.
 - D) There is no foreign trade.

Answer: C

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Revised

- 2) Which of the following represents the relationship between disposable income (DI), consumption (C), and saving (S)?
- A) $DI + C = S$
 - B) $DI = C + S$
 - C) $DI = C * S$
 - D) $DI = C - S$

Answer: B

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Revised

- 3) Which of the following is a simplifying assumption associated with the short-run Keynesian model of equilibrium real Gross Domestic Product (GDP) determination?
- A) Gross private domestic investment exceeds net private domestic investment.
 - B) Most business profits are distributed to shareholders.
 - C) Businesses pay indirect taxes.
 - D) There is no depreciation.

Answer: D

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

- 4) Which of the following would NOT be considered a consumption good?
- A) A new sweater
 - B) Tools used to cut metal on an auto production line
 - C) A jar of Skippy peanut butter
 - D) A bottle of Scotch whiskey

Answer: B

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Revised

- 5) The terms "saving" and "savings" differ in that
- A) saving is a stock, and savings are a flow.
 - B) saving always exceeds savings.
 - C) savings are a stock, and saving is a flow.
 - D) savings can be negative, but saving cannot.

Answer: C

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Revised

- 6) When you purchase Nautica clothing and tickets to see the Eminem concert
- A) you are buying consumption goods.
 - B) you are buying capital goods.
 - C) you are consuming intermediate goods.
 - D) you are buying physical capital.

Answer: A

Diff: 2

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Revised

- 7) The difference between "saving" and "savings" is that
- A) saving is done by households and savings by businesses.
 - B) saving is undertaken as a precaution against unemployment and savings are undertaken to increase investment spending.
 - C) savings are the result of past and current saving.
 - D) saving is placed in financial institutions such as banks, while savings are kept at home by people.

Answer: C

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Revised

- 8) Which of the following is NOT a flow variable?
- A) Consumption
 - B) Investment
 - C) Savings
 - D) Saving

Answer: C

Diff: 2

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

- 9) At a level of real disposable income of \$0, suppose consumption is \$2,000. Given this information, we know with certainty that saving equals
- A) \$0.
 - B) \$2,000.
 - C) -\$2,000.
 - D) -\$1,000.

Answer: C

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

10) Which of the following statements is FALSE?

- A) Disposable income – saving = consumption
- B) Consumption + saving = disposable income
- C) Saving = disposable income – consumption
- D) Consumption = saving – disposable income

Answer: D

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

11) Thinking as an economist would, which is true of investment?

- A) It is the portion of disposable income that is not used for consumption or saving.
- B) Investment represents spending on capital goods.
- C) Investment is putting money into stocks and bonds.
- D) Investment is a stock concept.

Answer: B

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

12) The income–expenditure model of real GDP determination is due to the work of

- A) Adam Smith.
- B) J. B. Say.
- C) John Maynard Keynes.
- D) Roger Miller.

Answer: C

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

13) Which of the following is considered investment?

- A) Maina purchases a new car for commuting to and from work.
- B) Jane purchases a new car for commuting to and from school.
- C) Johnny buys a new car for his wife as an anniversary gift.
- D) James purchases a new car to replace an old car in his cab business.

Answer: D

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

- 14) Saving differs from savings in that
- A) saving is a flow while savings is a stock.
 - B) saving is a stock while savings is a flow.
 - C) saving is both a flow and a stock while savings is a stock.
 - D) saving is a stock while savings is a flow.

Answer: A

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

- 15) Consumption expenditures include all of the following EXCEPT
- A) buying a pizza.
 - B) going to a concert.
 - C) having your house cleaned by Klean Maids.
 - D) purchasing a share of stock.

Answer: D

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

- 16) Consumption goods
- A) include goods such as DVDs that firms hold in inventory.
 - B) are only the goods bought by households for immediate satisfaction.
 - C) include spending on machines and buildings so that goods can be produced in the future.
 - D) are goods that are used to make other goods.

Answer: B

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

- 17) Keynes thought that the key to determining the broader economic effects of investment fluctuations
- A) was to examine how businesses react to flexible prices and wages.
 - B) was to closely regulate the real interest rate.
 - C) was to understand the relationship between how much people earn and their willingness to engage in personal consumption spending.
 - D) was to understand how changes in the money supply influences consumption decisions.

Answer: C

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

18) Saving is

- A) the amount one does not consume in a given period of time while savings is the accumulation of past periods of saving.
- B) the accumulation of past periods of savings while savings is the amount of disposable income that is not consumed in a given period of time.
- C) the difference between real GDP and disposable income while savings is the difference between disposable income and consumption spending.
- D) the difference between disposable income and spending on goods and services while savings is the difference between real GDP and disposable income.

Answer: A

Diff: 2

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

19) Spending on new goods and services out of a household's current income is

- A) consumption.
- B) the capital consumption allowance.
- C) savings.
- D) investment.

Answer: A

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

20) Consumption goods are

- A) a form of investment.
- B) goods purchased from savings.
- C) a form of capital goods.
- D) goods purchased by households to be used immediately.

Answer: D

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

21) The difference between a stock and a flow is

- A) a stock is something measured at one point in time while a flow is something that is expressed per unit of time.
- B) a stock is something measured at one point in time while a flow is something that is fixed.
- C) a stock is expressed per unit of time while a flow is measured at one point in time.
- D) a stock refers to the solid inventory firms have on hand while a flow refers to the liquid inventory firms have on hand.

Answer: A

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

22) The difference between savings and saving

- A) is nonexistent.
- B) is that savings occurs when consumption does not and saving is used to purchase consumption goods.
- C) is that savings is a stock concept and saving is a flow concept.
- D) is that savings is measured in real terms while saving is measured in nominal terms.

Answer: C

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

23) Which of the following is a flow variable?

- A) Savings
- B) Wealth
- C) Consumption
- D) Population

Answer: C

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

24) All of the following are flow variables EXCEPT

- A) consumption.
- B) saving.
- C) investment.
- D) capital goods.

Answer: D

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

25) Which of the following statements is true?

- A) consumption + saving = disposable income
- B) consumption + saving = personal income
- C) consumption – investment = disposable income
- D) consumption – saving = personal income

Answer: A

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

26) Which of the following statements is true?

- A) investment = disposable income + consumption
- B) saving = personal income – consumption
- C) saving = disposable income – consumption
- D) saving = personal income + consumption

Answer: C

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

27) Investment is

- A) the purchasing of stocks and mutual funds.
- B) goods bought by households.
- C) spending by businesses on things which can be used to produce goods and services in the future.
- D) the production of goods for immediate satisfaction.

Answer: C

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

28) Spending by businesses on things such as machines and buildings which can be used to produce goods and services in the future is

- A) investment.
- B) consumption.
- C) consumption goods.
- D) savings.

Answer: A

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

29) Expenditures by firms on new machines and buildings that are expected to yield a future stream of income is known as

- A) consumer durable.
- B) consumption goods.
- C) fixed investment.
- D) inventory investment.

Answer: C

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

30) Changes in business inventories are known as

- A) consumer durable.
- B) consumption goods.
- C) fixed investment.
- D) inventory investment.

Answer: D

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

31) Fixed investment is

- A) when a firm adds to its inventories of goods.
- B) when a firm accumulates profits.
- C) dissavings.
- D) an expenditure by firms on new machines that are expected to produce income in the future.

Answer: D

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

32) Investment is

- A) a flow concept and is made up of fixed investment and inventory investment.
- B) a flow concept and is made up of fixed investment.
- C) a stock concept and is made up of fixed investment and inventory investment.
- D) a stock concept and is made up of fixed investment.

Answer: A

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

33) Nonconsumable goods that firms use to make other goods are

- A) consumption goods.
- B) capital goods.
- C) dissaving.
- D) the MPC.

Answer: B

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

34) How is investment defined as an economic concept?

- A) Investment is primarily the market value of all shares of stock held by the public.
- B) Investment is primarily the market value of all equipment, buildings, and inventories held by corporations, partnerships, and proprietorships.
- C) Investment is primarily the sum of expenditures by businesses on new capital goods that will yield a future stream of income.
- D) Investment is primarily the portion of your savings held in an interest-earning account.

Answer: C

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

35) Savings are an example of

- A) a flow concept. B) a stock concept.
C) a depreciation concept. D) an investment concept.

Answer: B

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

36) Saving is an example of

- A) a flow concept. B) a stock concept.
C) a depreciation concept. D) an investment concept.

Answer: A

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

37) By definition, disposable income is equal to

- A) consumption plus saving. B) consumption plus investment.
C) investment plus saving. D) consumption minus saving.

Answer: A

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

38) Investment includes spending on

- A) capital goods, buildings, and consumer durable goods.
B) capital goods, buildings, and changes in business inventories.
C) capital goods, consumer durable goods, and changes in business inventories.
D) capital goods, buildings, and changes in business savings.

Answer: B

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

39) Which formula is correct?

- A) $S = Y_d - C$ B) $Y_d + S = C$ C) $2(Y_d) - S = C$ D) $Y_d + C = S$

Answer: A

Diff: 2

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB:

Question Status: Previous Edition

- 40) Your real disposable income is your real income after you have paid
- A) rent and food expenses.
 - B) net taxes.
 - C) medical expenses.
 - D) consumption expenses.

Answer: B

Diff: 2

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

- 41) Distinguish between saving and savings. How does investment relate to this distinction, if at all?

Answer: Saving is a flow concept and savings is a stock concept. Saving is the act of not consuming all of one's income in a year. Savings is a stock of wealth at a point in time. Investment is also a flow concept. For investment to take place, there must be saving.

Diff: 1

Topic: 12.1 Some Simplifying Assumptions in a Keynesian Model

AACSB: Analytic skills

Question Status: Previous Edition

12.2 Determinants of Planned Consumption and Planned Saving

- 1) Keynesian theory is based on the hypothesis that
- A) saving and consumption are influenced primarily by real current disposable income.
 - B) saving is influenced primarily by the interest rate.
 - C) planned savings equal planned investment only at full employment.
 - D) full employment is automatically attained in any economy.

Answer: A

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 2) Suppose that when disposable income increases by \$1,000, consumption spending increases by \$750. Given this information, we know that the marginal propensity to consume (MPC) is
- A) .25.
 - B) .75.
 - C) $\$1,000/\$750 = 1.33$.
 - D) $1/.25 = 4$.

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 3) Suppose that when disposable income decreases by \$2,000, consumption spending increases by \$1500. Given this information, we know that the marginal propensity to consume (MPC) is
- A) .25.
 - B) .75.
 - C) $\$1,000/\$750 = 1.33$.
 - D) $1/.25 = 4$.

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

4) Which of the following is true?

- A) $MPC - MPS = 1$
- C) $MPC * MPS = 1$

- B) $MPC + MPS = 1$
- D) $MPC / MPS = 1$

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

5) According to Keynesian theory, the most important determinant of saving and consumption is

- A) the level of real disposable income.
- B) the stock of liquid assets.
- C) the stock of durable goods in the consumer's possession.
- D) the level of consumer indebtedness.

Answer: A

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

6) The Keynesian model is based on the idea that

- A) saving depends only on the interest rate.
- B) both consumption and saving are directly related to disposable income.
- C) consumption is unrelated to the level of real Gross Domestic Product (GDP).
- D) both consumption and saving are unrelated to the level of real Gross Domestic Product (GDP).

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

7) The consumption function shows

- A) a positive relationship between an individual's stock of wealth and his level of planned consumption.
- B) a positive relationship between disposable income and planned consumption.
- C) a negative relationship between planned consumption and aggregate saving.
- D) a negative relationship between disposable income and planned consumption.

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 8) The relationship between households' planned consumption expenditures and households' level of disposable real income is called
- A) the consumption function.
 - B) the savings function.
 - C) the investment function.
 - D) the household aggregate demand function.

Answer: A

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 9) According to Keynes, planned consumption
- A) decreases as disposable income increases.
 - B) is unstable and fluctuates widely with changes in disposable income.
 - C) is positively related to real disposable income.
 - D) is indirectly related to the interest rate.

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Revised

- 10) The consumption function shows the relationship
- A) between households' disposable income and their consumption spending.
 - B) between investment and rate of return.
 - C) between consumption spending and capital gains.
 - D) between government spending and tax collection.

Answer: A

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 11) When an individual spends more than her/his disposable income, this person is
- A) saving.
 - B) investing.
 - C) dissaving.
 - D) unemployed.

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 12) Along a linear consumption function,
- A) the average propensity to consume falls with an increase in income.
 - B) the marginal propensity to consume rises with an increase in income.
 - C) the average propensity to consume rises with income, but the marginal propensity to consume falls with an increase in income.
 - D) both the average propensity to consume and the marginal propensity to consume rise with an increase in income.

Answer: A

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Revised

- 13) Dissaving occurs when
- A) disposable income exceeds consumption.
 - B) disposable income is less than consumption.
 - C) the marginal propensity to save is less than .5.
 - D) the marginal propensity to consume is less than .5.

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 14) Saving equals
- A) disposable income minus taxes.
 - B) disposable income minus consumption spending.
 - C) disposable income minus savings.
 - D) consumption spending minus savings.

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB:

Question Status: Previous Edition

- 15) According to Keynes, the primary determinant of a person's saving is NOT
- A) the person's level of income but the desired real income of the person.
 - B) the person's level of savings but the expected interest rate in the near future.
 - C) the interest rate but the level of savings the person has.
 - D) the interest rate but the level of the person's real disposable income.

Answer: D

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 16) According to Keynes, an individual's level of saving is primarily determined by
- A) the interest rate.
 - B) the individual's current level of disposable real income.
 - C) the individual's assessment of the future direction of the stock market.
 - D) real Gross Domestic Product (GDP) for the economy.

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 17) The consumption function shows how much
- A) households plan to consume per year at each level of real disposable income.
 - B) households plan to consume per year at each possible interest rate.
 - C) real disposable income people will earn at each income tax bracket.
 - D) households plan to consume per year at each level of savings.

Answer: A

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Revised

- 18) According to Keynes,
- A) consumption is positively related to the interest rate.
 - B) consumption is directly related to income but saving is inversely related to income.
 - C) both consumption and saving are positively related to real disposable income.
 - D) consumption is directly related to income but saving has no relationship with income.

Answer: C

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 19) When consumption spending is greater than disposable income, we know with certainty that we have
- A) dissaving.
 - B) excess thrift.
 - C) positive savings.
 - D) negative net investment.

Answer: A

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 20) Suppose real disposable income increases by \$1,000. Given this information, we know that
- A) consumption will generally increase by exactly \$1,000.
 - B) consumption will generally increase by less than \$1,000.
 - C) consumption will generally increase by more than \$1,000.
 - D) saving will generally increase by exactly \$1,000.

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 21) Suppose when real disposable income is \$5000, planned real consumption is \$4000. When real disposable income increases to \$6000, planned real saving increases by \$500. The new planned real consumption expenditures is
- A) \$5,000.
 - B) \$4,500.
 - C) \$6,000.
 - D) \$3,500.

Answer: B

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

Planned Consumption	Planned Saving	Planned Investment	Real GDP
\$6,000	-\$1,000	\$1,000	\$5,000
10,000	0	-	10,000
14,000	1,000	-	15,000
18,000	2,000	-	20,000
22,000	-	-	25,000
26,000	-	-	30,000

- 22) According to the above table, if real Gross Domestic Product (GDP) is \$30,000, planned saving equals
- A) \$2,000.
 - B) \$3,000.
 - C) \$4,000.
 - D) \$5,000.

Answer: C

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 23) According to the above table, the marginal propensity to consume is
- A) 0.6.
 - B) 0.5.
 - C) 0.75.
 - D) 0.8.

Answer: D

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 24) According to the above table, if real Gross Domestic Product (GDP) equals \$30,000, what is the average propensity to consume?

A) 0.67 B) 0.75 C) 0.8 D) 0.87

Answer: D

Diff: 3

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Revised

- 25) The break-even point on the consumption function represents the point where

A) consumption equals spending.
 B) income equals consumption plus spending.
 C) consumption is zero.
 D) consumption equals income.

Answer: D

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 26) In the graph for the consumption function, the 45-degree line

A) contains only a consumption component.
 B) represents both planned consumption and planned investment.
 C) shows various combinations where planned consumption equals real disposable income.
 D) reflects a decreasing APC as real disposable income rises.

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Revised

- 27) When a family's income is low and it is spending more on consumption than it is receiving in income,

A) the APC must be increasing.
 B) the APC must be equal to the ratio of planned consumption expenditure to total saving.
 C) the MPC must be zero.
 D) some segment of the consumption function curve lies above the 45-degree line, indicating dissaving.

Answer: D

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

28) At the break-even point for the consumption function

- A) saving is positive.
- B) saving is negative.
- C) saving is zero.
- D) the marginal propensity to consume equals 1.

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

29) If saving equals \$200 when real disposable income equals \$1,000, the break-even income is

- A) less than \$1,000.
- B) greater than \$1,000.
- C) equal to \$1,000.
- D) equal to \$1,200.

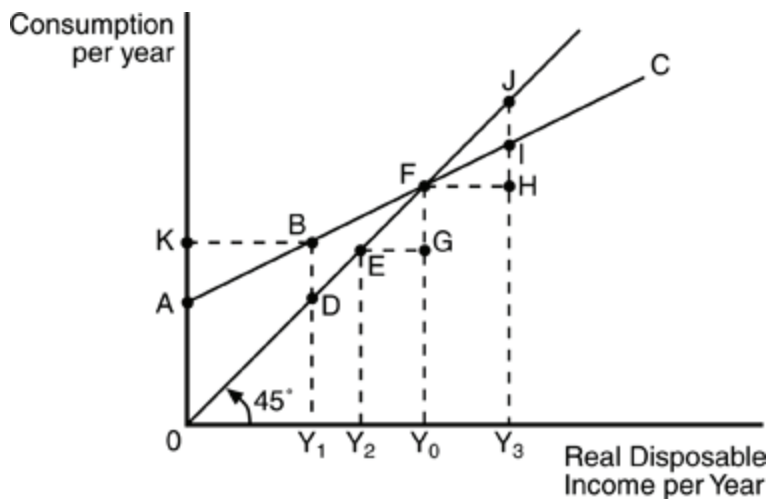
Answer: A

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition



30) According to the above figure, planned consumption and income are equal at an income level of

- A) Y_2 .
- B) Y_3 .
- C) Y_1 .
- D) Y_0 .

Answer: D

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 31) According to the above figure, at an income level of Y_1 ,
- A) the economy saves an amount equal to BD.
 - B) the marginal propensity to save is falling.
 - C) the average propensity to save is greater than one.
 - D) the economy dissaves an amount equal to BD.

Answer: D

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 32) According to the above figure, the average propensity to save (APS) is zero at point
- A) D.
 - B) F.
 - C) I.
 - D) J.

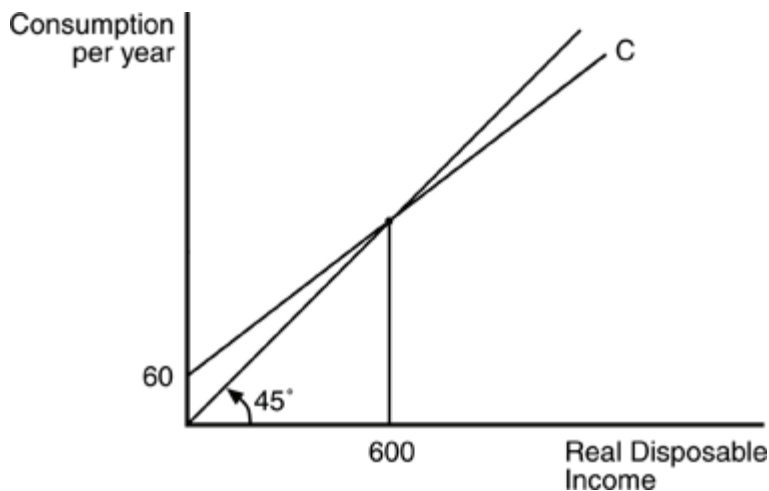
Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition



- 33) In the above figure, when disposable income is greater than 600,
- A) saving is negative.
 - B) the MPC is greater than 1.
 - C) saving is positive.
 - D) the MPS is negative.

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 34) In the above figure, the marginal propensity to consume (MPC) equals
- A) 0.8.
 - B) 0.9.
 - C) 0.75.
 - D) 0.85.

Answer: B

Diff: 3

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 35) In the above figure, a change in autonomous consumption to 100 would cause the consumption function to
- A) become steeper.
 - B) become flatter.
 - C) shift down.
 - D) shift up.

Answer: D

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 36) In the above figure, saving will equal zero when real disposable income equals
- A) 0.
 - B) 60.
 - C) 600.
 - D) 500.

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 37) In the above figure, when real disposable income equals 600
- A) there is dissaving.
 - B) consumption is less than disposable income.
 - C) real disposable income exceeds consumption.
 - D) consumption equals real disposable income.

Answer: D

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Revised

- 38) In the above figure, when real disposable income is less than 600, then
- A) consumption is less than disposable income.
 - B) consumption is more than disposable income.
 - C) consumption is the same as disposable income.
 - D) the MPC will fall.

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 39) Along the portion of the consumption function that lies above the 45-degree line, saving is
- A) positive.
 - B) negative.
 - C) equal to zero.
 - D) equal to consumption

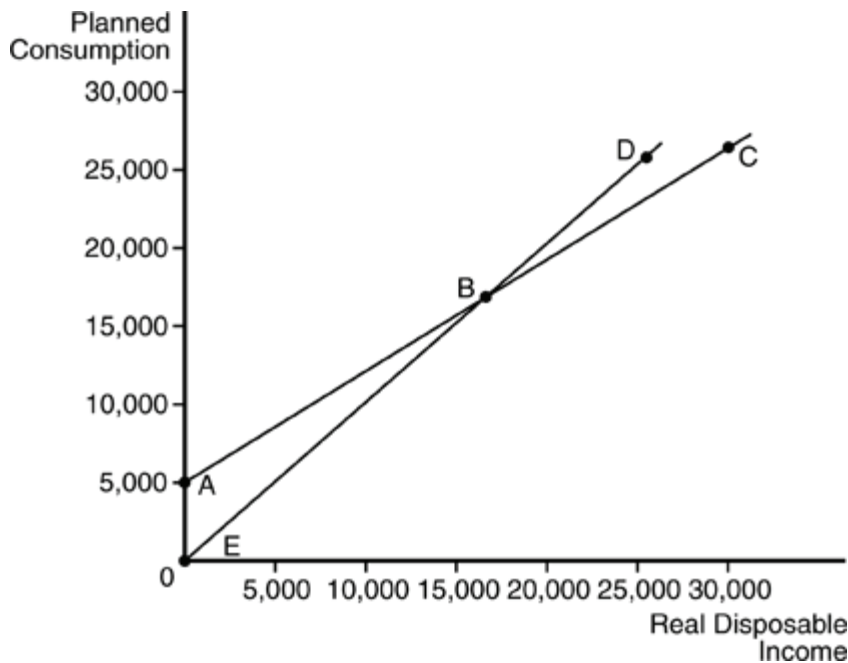
Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Revised



- 40) Refer to the above figure. If the MPC is unchanged and level of autonomous consumption increases, what occurs?
- A) Line EBD will shift up.
 - B) Line ABC will drop down.
 - C) Line ABC shifts up.
 - D) Line EBD rotates and becomes steeper.

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 41) Refer to the above figure. Line ABC is called
- A) the 45-degree line.
 - B) the consumption function.
 - C) the saving function.
 - D) aggregate supply.

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 42) Refer to the above figure. Line EBD is called
- A) the 45-degree line.
 - B) the consumption function.
 - C) the saving function.
 - D) aggregate demand.

Answer: A

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 43) According to the above figure, autonomous consumption equals
A) \$0. B) \$5,000. C) \$20,000. D) -\$5,000.

Answer: B

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 44) Refer to the above figure. If real disposable income is less than \$5,000, then saving is
A) 0.
B) negative.
C) positive.
D) none of the above: cannot be determined with the given information.

Answer: B

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: New

- 45) Where the consumption function intersects the 45-degree line,
A) savings will be negative.
B) consumption will equal only autonomous consumption.
C) the average propensity to consume is 0.5.
D) saving will be zero.

Answer: D

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 46) If the marginal propensity to consume is unchanged and autonomous consumption expenditures increase, then
A) saving at every level of disposable income increases.
B) the break-even disposable income decreases.
C) the break-even disposable income increases.
D) saving is unaffected.

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 47) Autonomous consumption is
- A) consumption spending that is earned rather than transferred from the government.
 - B) consumption spending that does not depend on the level of income.
 - C) the amount spent on consumption when saving equals zero.
 - D) consumption spending when the marginal propensity to consume is 1.

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 48) In economics, the term "autonomous" means
- A) existing independently.
 - B) non-economic related.
 - C) disposable income.
 - D) cash payments.

Answer: A

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB:

Question Status: Revised

- 49) When a household's disposable income falls to zero, what do we expect will happen?
- A) The household's consumption spending also falls to zero.
 - B) The household will maintain a positive level of saving.
 - C) The household will maintain its previous level of consumption.
 - D) Consumption will fall to the level of autonomous consumption.

Answer: D

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 50) If the level of consumption is \$100 billion and disposable income is \$125 billion, then the
- A) APC = 0.6 and saving is positive.
 - B) APC = 0.8 and saving is negative.
 - C) APC = 0.8 and saving is positive.
 - D) APC = 0.6 and saving is negative.

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 51) If disposable income = \$200 billion and the APS = 0.9, then
- A) saving = \$90 billion.
 - B) saving = \$45 billion.
 - C) saving = \$180 billion.
 - D) saving cannot be determined.

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 52) If the marginal propensity to save is 0.4 and disposable income increases from \$1,000 to \$1,500, saving will increase
- A) \$100. B) \$200. C) \$300. D) \$400.

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 53) If consumption is \$750 when real disposable income is \$1,000, the average propensity to consume is
- A) 0.80. B) 0.75. C) 0.50. D) 0.25.

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 54) The average propensity to consume is the
- A) percentage of total disposable income consumed.
B) rate at which real disposable income changes as planned consumption changes.
C) ratio of changes in planned consumption to changes in real disposable income.
D) slope of the consumption function.

Answer: A

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 55) Which of the following correctly defines the average propensity to consume (APC)?
- A) Change in planned consumption divided by change in real disposable income
B) Planned consumption divided by real disposable income
C) Real disposable income divided by planned consumption
D) Change in real disposable income divided by change in planned consumption

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 56) As real disposable income increases, we expect the average propensity to consume (APC)
- A) to always be below MPC. B) to increase.
C) to decrease. D) to remain unchanged.

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 57) If the average propensity to consume is 0.8, then the average propensity to save is
 A) 0. B) 0.2. C) 0.8. D) 1.

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 58) The average propensity to consume (APC) equals
 A) real disposable income divided by consumption expenditures.
 B) consumption expenditures divided by real disposable income.
 C) the change in consumption expenditures divided by the change in real disposable income.
 D) the change in real disposable income divided by the change in consumption expenditures.

Answer: B

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 59) If the average propensity to save (APS) is 0.60, then this means
 A) people are saving 60 percent of their disposable income.
 B) people are spending 60 percent of their disposable income.
 C) the marginal tax rate is 60.
 D) the government spends 60 percent of its revenues.

Answer: A

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 60) When the average propensity to save (APS) is 0.20, then this means
 A) people are spending 20 percent of their disposable income.
 B) people are spending 80 percent of their disposable income.
 C) people are saving \$0.20 of the last dollar earned.
 D) people are spending 60 percent of their disposable income and investing the remaining 20 percent.

Answer: B

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 61) If the marginal propensity to save (MPS) = 0.1, then
- A) the MPC = 0.9.
 - B) the APS = 0.1.
 - C) the APC = 0.9.
 - D) consumption equals \$1,800 when income equals \$2,000.

Answer: A

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 62) The marginal propensity to consume (MPC) can best be defined as that fraction of
- A) real disposable income that is consumed.
 - B) real disposable income that is not consumed.
 - C) a change in real disposable income that is spent.
 - D) a change in real disposable income that is saved.

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 63) The fraction of a change in real disposable income that is spent is referred to as the
- A) APC.
 - B) MPC.
 - C) MPS.
 - D) APS.

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 64) The marginal propensity to consume (MPC)
- A) shows how much real disposable income changes when consumption falls.
 - B) is greater than 1 only if the marginal propensity to save is greater than 1.
 - C) shows how much of an extra dollar of real disposable income is spent.
 - D) shows the percentage of real disposable income consumed at each level of income.

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 65) The marginal propensity to consume explains how much of the next dollar of disposable income
- A) a household will spend.
 - B) a business will invest.
 - C) the government will spend.
 - D) foreign residents will use to purchase domestic exports.

Answer: A

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

Real Disposable Income	Consumption
0	\$100
\$100	\$180
\$300	\$340
\$500	\$500
\$700	\$660
\$900	\$820

- 66) In the above table, the marginal propensity to consume (MPC) is
A) 0.9. B) 0.75. C) 0.8. D) 0.85.

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 67) In the above table, saving is positive when real disposable income is greater than
A) zero. B) \$100. C) \$300. D) \$500.

Answer: D

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 68) In the above table, saving equals zero when real disposable income equals
A) \$0. B) \$200. C) \$300. D) \$500.

Answer: D

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 69) In the above table, the marginal propensity to save is _____.
A) 0.8 B) 0.6 C) 0.2 D) 0.4

Answer: C

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Revised

- 70) The arithmetic value of $(1 - \text{MPC})$ equals
A) APC. B) MPS. C) APS. D) NDP.

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 71) The ratio of the change in consumption to the change in disposable income is the
- A) marginal propensity to consume.
 - B) marginal propensity to save.
 - C) average propensity to consume.
 - D) average propensity to save.

Answer: A

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 72) The marginal propensity to consume is calculated by
- A) dividing consumption by income.
 - B) dividing income by consumption.
 - C) dividing the change in income by the change in consumption.
 - D) dividing the change in consumption by the change in income.

Answer: D

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 73) If the average propensity to consume is 1.0, the marginal propensity to consume is 0.8, and real disposable income increases by \$100, the additional saving is
- A) \$0.
 - B) \$20.
 - C) \$80.
 - D) \$100.

Answer: B

Diff: 3

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 74) If the MPC is 0.8, then the MPS is
- A) 0.2.
 - B) 1.
 - C) 5.
 - D) 8.

Answer: A

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

Real Disposable Income	Planned Savings
\$100	-\$10
150	-5
200	0
300	10
360	16
500	30

- 75) According to the above table, the value of the MPC is
A) 0.9. B) 0.1. C) 0.5. D) 0.7.

Answer: A

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 76) According to the above table, as the level of real disposable income increases,
A) the marginal propensity to save declines.
B) the APC increases.
C) the marginal propensity to consume increases.
D) the APS increases.

Answer: D

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 77) According to the above table, the value of MPS is _____.
A) 0.9
B) 0.2
C) 0.1
D) increasing as real disposable income rises.

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 78) It is conceivable that the APC, APS, MPC, and MPS could simultaneously be
A) APC = 1.0; APS = 0.1; MPC = 0.8; MPS = 0.25.
B) APC = 0.8; APS = 0.2; MPC = 1.1; MPS = 0.1.
C) APC = 1.3; APS = -0.3; MPC = 0.9; MPS = 0.1.
D) APC = 1.0; APS = 0; MPC = 1.0; MPS = 0.15.

Answer: C

Diff: 3

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 79) What can we say about $APC + APS$ and $MPC + MPS$?
- A) Each must sum to 1.
 - B) $MPC + MPS = 100\%$ of total income.
 - C) $APC + APS = 100\%$ of the change in income.
 - D) $MPC + MPS$ always equals 1, but the sum of $APC + APS$ can vary.

Answer: A

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 80) Which of the following would be expected to shift the consumption function up?
- A) Decreases in wealth
 - B) Expectations of harder times ahead
 - C) Increases in the nation's population
 - D) Changes in real disposable income

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 81) The non-income determinants of consumption include all of the following EXCEPT
- A) stock of assets owned by household.
 - B) innovation.
 - C) the interest rate.
 - D) real wealth.

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 82) All of the following will shift the consumption function EXCEPT
- A) a change in wealth.
 - B) a change in the rate of interest.
 - C) a change in income.
 - D) a change in expectations concerning economic conditions.

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 83) The consumption function shifts upward when
- A) real income increases.
 - B) saving increases.
 - C) the real wealth of the average household increases.
 - D) population decreases.

Answer: C

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 84) The consumption function will shift with
- A) an increase in real disposable income.
 - B) a change in saving.
 - C) a decrease in real disposable income.
 - D) a change in household wealth.

Answer: D

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 85) According to Keynes, the primary determinant of a person's saving is
- A) the nominal interest rate.
 - B) the real interest rate.
 - C) the level of the person's consumption spending.
 - D) the level of the person's real current income.

Answer: D

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 86) Which of the following is correct?
- A) $1 + \text{MPS} = \text{MPC}$
 - B) $1 - \text{MPC} = \text{MPS}$
 - C) $1 - \text{MPS} = \text{MPC} + 1$
 - D) $1 - \text{MPS} = \text{MPC} + 1$

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 87) The consumption function relates
- A) a household's consumption to its wealth.
 - B) planned household consumption to real disposable income.
 - C) planned household consumption and real interest rates.
 - D) real disposable incomes earned by households with the level of consumption credit desired in the economy.

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 88) How much people plan to consume at various levels of disposable income is known as
- A) dissaving.
 - B) investment.
 - C) the consumption function.
 - D) inventory investment.

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

89) The relationship between planned real consumption expenditures of households and their current level of real disposable income is

- A) investment.
- B) dissaving.
- C) saving.
- D) the consumption function.

Answer: D

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

90) In the Keynesian model, consumption

- A) is positively related to income and saving is negatively related to the stock market.
- B) is positively related to income but saving is not systematically related to either income or interest rates.
- C) and saving are positively related to the real interest rate.
- D) and saving are positively related to income.

Answer: D

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

91) Dissaving is

- A) impossible in the simple Keynesian model.
- B) the situation when saving exceeds consumption.
- C) the situation when consumption spending exceeds disposable income.
- D) the situation when people save smaller and smaller amounts.

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB:

Question Status: Previous Edition

92) A situation in which spending exceeds income is

- A) the consumption function.
- B) the saving function.
- C) average propensity to save.
- D) dissaving.

Answer: D

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB:

Question Status: Previous Edition

93) As real disposable income increases, consumption expenditures

- A) increase by the same amount.
- B) increase by a smaller amount.
- C) increase by a larger amount.
- D) remain constant.

Answer: B

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 94) When disposable income equals consumption expenditures, then
- A) saving is zero.
 - B) saving equals 10 percent of income.
 - C) both saving and savings are zero.
 - D) we can't tell what saving is without more information.

Answer: A

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 95) At a level of real disposable income of 0, consumption is \$4000. Then
- A) saving equals 0.
 - B) saving equals -\$4000.
 - C) savings equal -\$4000.
 - D) saving equals \$4000.

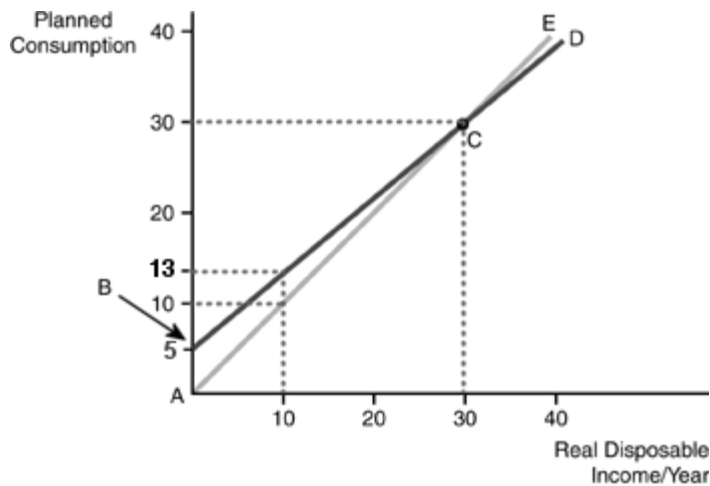
Answer: B

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition



- 96) Refer to the above figure. Line BCD is called
- A) the saving function.
 - B) the savings function.
 - C) the 45-degree line.
 - D) the consumption function.

Answer: D

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

97) Refer to the above figure. Line ACE is called

- A) the saving function. B) the savings function.
C) the 45-degree line. D) the consumption function.

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

98) Refer to the above figure. If real disposable income is \$30,000, saving is

- A) \$0. B) \$4000. C) \$5000. D) \$6000.

Answer: A

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

99) Refer to the above figure. At an income of \$10,000, saving is

- A) 0. B) \$13,000. C) \$3,000. D) -\$3,000.

Answer: D

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

100) Refer to the above figure. Autonomous consumption equals

- A) 0. B) -\$5000. C) \$5000. D) \$25,000.

Answer: C

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

101) Refer to the above figure. The marginal propensity to consume and the marginal propensity to save

- A) are 0.90 and 0.10, respectively. B) are 0.83 and 0.17, respectively.
C) are 0.75 and 0.25, respectively. D) depend on the level of income.

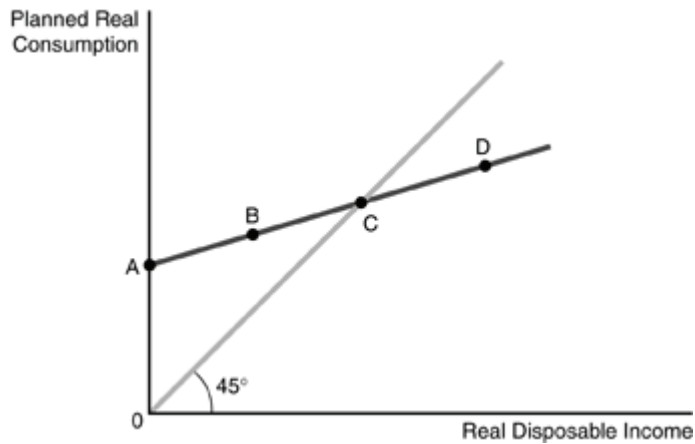
Answer: B

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition



102) Refer to the above figure. The figure represents the consumption function for a consumer. Point

A represents

- A) autonomous consumption.
- B) positive saving.
- C) negative consumption.
- D) zero saving.

Answer: A

Diff: 3

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Revised

103) Refer to the above figure. The figure represents the consumption function for a consumer. Point

B represents

- A) autonomous consumption.
- B) positive saving.
- C) negative saving.
- D) zero saving.

Answer: C

Diff: 3

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Revised

104) Refer to the above figure. The figure represents the consumption function for a consumer. Point

C represents

- A) autonomous consumption.
- B) positive saving.
- C) negative saving.
- D) zero saving.

Answer: D

Diff: 3

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Revised

- 105) Refer to the above figure. The figure represents the consumption function for a consumer. Point D represents
- A) autonomous consumption.
 - B) saving.
 - C) dissaving.
 - D) zero saving.

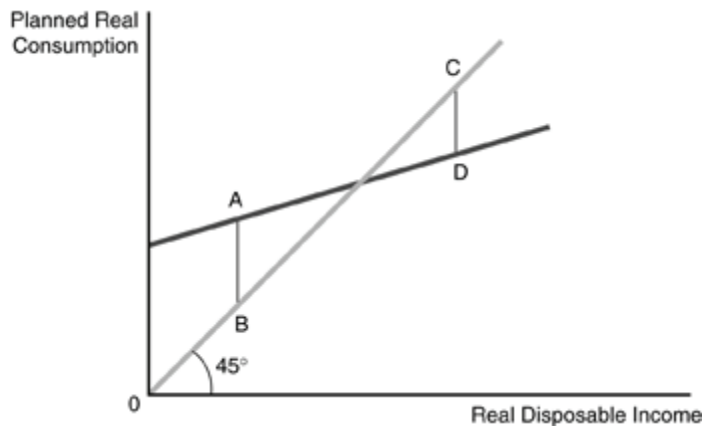
Answer: B

Diff: 3

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Revised



- 106) Refer to the above figure. The figure represents the consumption function for a consumer. The distance between A and B represents
- A) the amount of autonomous consumption.
 - B) the amount of autonomous saving.
 - C) the amount of total consumption.
 - D) none of the above.

Answer: D

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 107) Refer to the above figure. The figure represents the consumption function for a consumer. The distance between C and D represents
- A) the amount of autonomous consumption.
 - B) the amount of saving.
 - C) the amount of dissaving.
 - D) the point where saving equals zero.

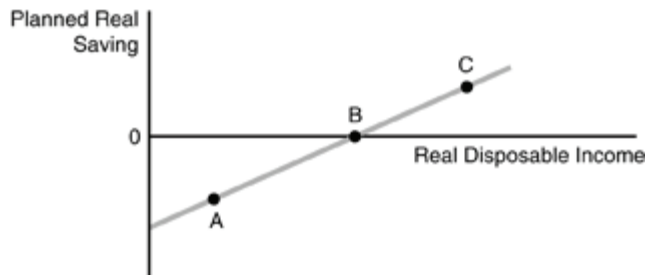
Answer: B

Diff: 3

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition



108) Refer to the above figure. The figure represents the saving function for the consumer. Point A represents

- A) the amount of autonomous consumption.
- B) a situation in which saving is positive.
- C) a situation in which saving is negative.
- D) the point at which saving equals zero.

Answer: C

Diff: 3

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

109) Refer to the above figure. The figure represents the saving function for the consumer. Point B represents

- A) the amount of autonomous consumption.
- B) a situation in which saving is positive.
- C) a situation in which saving is negative.
- D) the point at which saving equals zero.

Answer: D

Diff: 3

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

110) Refer to the above figure. The figure represents the saving function for the consumer. Point C represents

- A) the amount of autonomous consumption.
- B) a situation in which saving is positive.
- C) a situation in which saving is negative.
- D) the point at which saving equals zero.

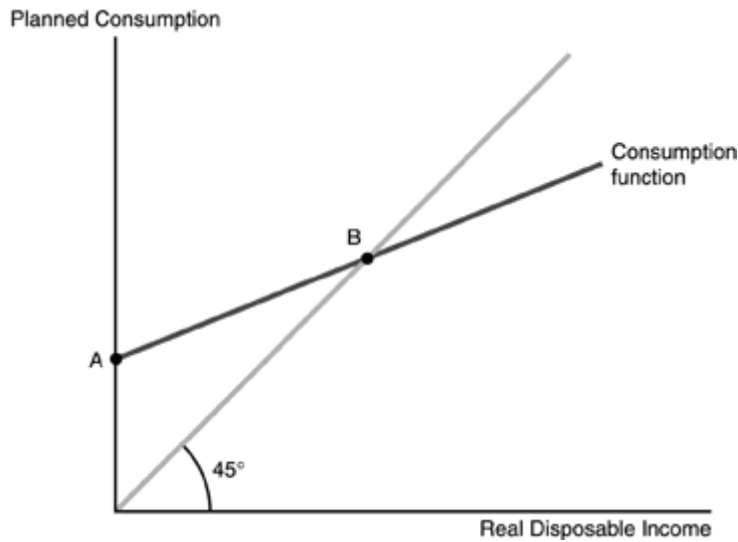
Answer: B

Diff: 3

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition



- 111) Refer to the above figure. Autonomous consumption is
- A) only at point A.
 - B) to the left of point B.
 - C) only at point B.
 - D) to the right of point B.

Answer: A

Diff: 3

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Revised

- 112) Refer to the above figure. The point at which saving equals zero is
- A) only at point A.
 - B) to the left of point B.
 - C) only at point B.
 - D) to the right of point B.

Answer: C

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Revised

- 113) Refer to the above figure. Dissaving occurs,
- A) only at point A.
 - B) to the left of point B.
 - C) only at point B.
 - D) to the right of point B.

Answer: B

Diff: 3

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Revised

114) Refer to the above figure. Saving occurs at

- A) only at point A.
- B) to the left of point B.
- C) only at point B.
- D) to the right of point B.

Answer: D

Diff: 3

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Revised

115) Along the 45° reference line

- A) consumption expenditures equal saving.
- B) the relationship between consumption and income is represented.
- C) the average propensity to consume is represented.
- D) planned real expenditures equal real disposable income.

Answer: D

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

116) Planned expenditures equal real disposable income

- A) at every point on the consumption function.
- B) at every point on the saving function.
- C) at every point on the 45-degree line.
- D) when saving equals zero.

Answer: C

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

117) The break-even point refers to

- A) the amount of autonomous consumption.
- B) the point at which planned real consumption equals real disposable income.
- C) the maximum amount of dissaving a person can experience.
- D) a point at which planned real consumption is for greater than real disposable income.

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

118) Autonomous consumption

- A) is the same as the break-even point.
- B) gives the amount a person changes planned consumption for a change in real disposable income.
- C) is the amount of consumption that is independent of the level of disposable income.
- D) is the proportion of total disposable income that is consumed.

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

119) The part of consumption that does not depend upon the level of disposable income is

- A) autonomous consumption.
- B) saving.
- C) savings.
- D) average propensity to consume.

Answer: A

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

120) Average propensity to consume

- A) is the same as the break-even point.
- B) gives the amount a person changes planned consumption for a change in real disposable income.
- C) is the amount of consumption that is independent of the level of disposable income.
- D) is the proportion of total disposable income that is consumed.

Answer: D

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

121) The average propensity to consume is

- A) real consumption expenditures divided by real disposable income.
- B) real disposable income divided by real consumption expenditures.
- C) real consumption expenditures divided by real saving.
- D) real consumption expenditures divided by real saving.

Answer: A

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

122) Marginal propensity to consume

- A) is the same as the break-even point.
- B) gives the amount a person changes planned consumption for a change in real disposable income.
- C) is the amount of consumption that is independent of the level of disposable income.
- D) is the proportion of total disposable income that is consumed.

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

123) The average propensity to consume is

- A) real consumption/real disposable income.
- B) real saving/real disposable income.
- C) change in real consumption/change in real disposable income.
- D) change in real saving/change in real disposable income.

Answer: A

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

124) The marginal propensity to save is

- A) real consumption/real disposable income.
- B) real saving/real disposable income.
- C) change in real consumption/change in real disposable income.
- D) change in real saving/change in real disposable income.

Answer: D

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

125) Which of the following is negative for the "typical" consumer at some level of real disposable income?

- A) Marginal propensity to save.
- B) Marginal propensity to consume.
- C) Average propensity to save.
- D) Average propensity to consume.

Answer: C

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 126) The marginal propensity to consume is
- A) real consumption/real disposable income.
 - B) real saving/real disposable income.
 - C) change in real consumption/change in real disposable income.
 - D) change in real saving/change in real disposable income.

Answer: C

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 127) The average propensity to save is
- A) real consumption/real disposable income.
 - B) real saving/real disposable income.
 - C) change in real consumption/change in real disposable income.
 - D) change in real saving/change in real disposable income.

Answer: B

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 128) The equation $\frac{\text{real consumption}}{\text{real disposable income}}$ is the
- A) average propensity to consume.
 - B) average propensity to save.
 - C) marginal propensity to consume.
 - D) marginal propensity to save.

Answer: A

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB:

Question Status: Previous Edition

- 129) The equation $\frac{\text{real saving}}{\text{real disposable income}}$ is the
- A) average propensity to consume.
 - B) average propensity to save.
 - C) marginal propensity to consume.
 - D) marginal propensity to save.

Answer: B

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB:

Question Status: Previous Edition

130) The equation $\frac{\text{change in real consumption}}{\text{change in real disposable income}}$ is the

- A) average propensity to consume. B) average propensity to save.
C) marginal propensity to consume. D) marginal propensity to save.

Answer: C

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB:

Question Status: Previous Edition

131) The equation $\frac{\text{change in real saving}}{\text{change in real disposable income}}$ is the

- A) average propensity to consume. B) average propensity to save.
C) marginal propensity to consume. D) marginal propensity to save.

Answer: D

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB:

Question Status: Previous Edition

Real Disposable Income	Planned Real Consumption
0	3,000
2,000	4,400
4,000	5,800
6,000	7,200
8,000	8,600
10,000	10,000
12,000	11,400
14,000	12,800

132) Refer to the above table. The table gives the combinations of real disposable income and real consumption for a college student for a year. What does planned real saving equal when real disposable income equals \$12,000?

- A) 0 B) 600 C) 3,000 D) 11,400

Answer: B

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 133) Refer to the above table. The table gives the combinations of real disposable income and real consumption for a college student for a year. What does planned real saving equal when real disposable income equals \$6,000?

A) -3,000 B) -1,200 C) 0 D) 7,200

Answer: B

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 134) Refer to the above table. The table gives the combinations of real disposable income and real consumption for a college student for a year. What is the value of the marginal propensity to consume?

A) 0 B) 0.3 C) 0.7 D) 1

Answer: C

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 135) Refer to the above table. The table gives the combinations of real disposable income and real consumption for a college student for a year. The break-even level of real disposable income is

A) 0 B) 6,000 C) 10,000 D) 14,000

Answer: C

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 136) Refer to the above table. The table gives the combinations of real disposable income and real consumption for a college student for a year. What is the value of the average propensity to consume when real disposable income equals \$4,000?

A) -0.45 B) 0.69 C) 0.7 D) 1.45

Answer: D

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 137) Refer to the above table. The table gives the combinations of real disposable income and real consumption for a college student for a year. What is the value of the average propensity to save when real disposable income equals \$4,000?

A) -0.45 B) 0.69 C) 0.7 D) 1.45

Answer: A

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 138) Refer to the above table. The table gives the combinations of real disposable income and real consumption for a college student for a year. What is the value of the average propensity to consume when real disposable income equals \$14,000?

A) 0.09 B) 0.7 C) 0.91 D) 1.1

Answer: C

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 139) Refer to the above table. The table gives the combinations of real disposable income and real consumption for a college student for a year. What is the value of the average propensity to save equal when real disposable income equals \$14,000?

A) 0.09 B) 0.7 C) 0.91 D) 1.1

Answer: A

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 140) An increase in autonomous consumption means that

A) the consumption function shifts down.
 B) the consumption function shifts up.
 C) the consumption function becomes steeper.
 D) the consumption function becomes less steep.

Answer: B

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 141) If the average propensity to consume is initially 1.0, the marginal propensity to consume is 0.75, and real disposable income increases by \$1000, the new value of saving is

A) 0. B) \$250. C) \$750. D) \$1000.

Answer: B

Diff: 3

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 142) Suppose autonomous consumption decreases. This reduction in autonomous consumption will cause which of the following to occur?

A) The consumption function shifts down.
 B) The consumption function shifts up.
 C) The consumption function becomes steeper.
 D) The consumption function becomes less steep.

Answer: A

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

143) The stock of assets owned by a person, household, firm or nation is

- A) real disposable income.
- B) wealth.
- C) capital investment.
- D) capital goods.

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

144) The average price of a share of stock on the New York Stock Exchange falls by 30 percent. Other things being equal, we would expect

- A) an increase in the marginal propensity to consume.
- B) a decrease in the marginal propensity to consume.
- C) a shift up of the consumption function.
- D) a shift down of the consumption function.

Answer: D

Diff: 3

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

145) Which of the following statements is true?

- A) $APC + APS = 1$
- B) $APC + APS < 1$
- C) $APC + MPS = 1$
- D) $APC + APS + MPC + MPS = 1$

Answer: A

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

146) Another way of stating that investment is independent of real disposable income is to say that it is

- A) inversely related.
- B) directly related.
- C) complementary.
- D) autonomous.

Answer: D

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

147) Which one of the following statements is true?

- A) In the classical model, the supply of saving is determined by the rate of interest.
- B) In the classical model, the supply of saving is determined by the level of income.
- C) In the Keynesian model, the supply of saving is determined by the rate of interest.
- D) In the Keynesian model, the supply of saving is determined by the level of investment.

Answer: A

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 148) The consumption function shows the relationship between
- A) interest rates and planned real consumption.
 - B) employment and planned real consumption.
 - C) the price level and planned real consumption.
 - D) real disposable income and planned real consumption.

Answer: D

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 149) The relationship that tells us how much a person intends to spend at various levels of income is
- A) the spending function.
 - B) the expenditure function.
 - C) the consumption function.
 - D) the buying function.

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 150) The part of consumption that is independent of disposable income is called
- A) automatic consumption.
 - B) fixed consumption.
 - C) personal consumption.
 - D) autonomous consumption.

Answer: D

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 151) Which of the following is false?
- A) $APC + MPS = 1$
 - B) $MPC + MPS = 1$
 - C) $1 - APC = APS$
 - D) $APC + APS = 1$

Answer: A

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 152) Which of the following is false?
- A) $1 - MPC = MPS$
 - B) $1 + MPC = MPS$
 - C) $1 - APS = APC$
 - D) $APC + APS = 1$

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- B) $MPC + MPS = 1$
D) $APC - APS = 1$

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- B) $APC + APS = 1$
D) $APC * APS = 1$

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

Real Disposable Income per Year	Planned Real Consumption per Year
\$0	\$1,000
1,000	1,800
2,000	2,600
3,000	3,400
4,000	4,200
5,000	5,000
6,000	5,800
7,000	6,600
8,000	7,400
9,000	8,200
10,000	9,000

- 155) In the above table, the level of autonomous consumption is

A) \$0.

B) \$1,000.

C) \$5,000.

D) \$9,000.

Answer: B

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Revised

- 156) In the above table, dissaving occurs at every level of income below

A) \$10,000.

B) \$8,000.

C) \$7,000.

D) \$5,000.

Answer: D

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 157) In the above table, the marginal propensity to consume when disposable income changes from \$5,000 to \$6,000 is

A) 0.8. B) 0.75. C) 0.6. D) 0.5.

Answer: A

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 158) In the above table, the marginal propensity to save when disposable income changes from \$1,000 to \$2,000 is

A) 0.1. B) 0.2. C) 0.8. D) -0.2.

Answer: B

Diff: 3

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 159) In the above table, the average propensity to save when disposable income is \$5,000 is

A) 0.2. B) 0.1. C) 0.0. D) -0.1.

Answer: C

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 160) In the above table, the average propensity to consume when income is \$10,000 is

A) 0.8. B) 0.2. C) 0.0. D) 0.9.

Answer: D

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 161) At the point at which planned real consumption spending is equal to real disposable income

A) the consumption function is above the 45-degree line.
 B) the consumption function is below the 45-degree line.
 C) the consumption function intersects the 45-degree line.
 D) the consumption function intersects the savings function.

Answer: C

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 162) Which one of the following would shift your consumption function in an upward direction?
- A) an increase in your wealth
 - B) a decrease in your wealth
 - C) an increase in your real disposable income
 - D) a decrease in your real disposable income

Answer: A

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 163) According to Keynes, the most important determinant of an individual's real saving is
- A) interest rates.
 - B) the foreign exchange rate.
 - C) the individual's real disposable income.
 - D) the level of investment.

Answer: C

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 164) Assuming that $Y_d = \$20,000$ and $C = \$22,000$, we would find that the average propensity to consume would be equal to
- A) 0.9.
 - B) 1.1.
 - C) 1.8.
 - D) 0.8.

Answer: B

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 165) Assuming that $Y_d = \$20,000$ and $C = \$22,000$, we would find that the average propensity to save equals
- A) 0.9.
 - B) 1.1.
 - C) -0.1.
 - D) -0.8.

Answer: C

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 166) The relationship between planned consumption and real disposable income is referred to as
- A) the wealth function.
 - B) the saving function.
 - C) the multiplier.
 - D) the consumption function.

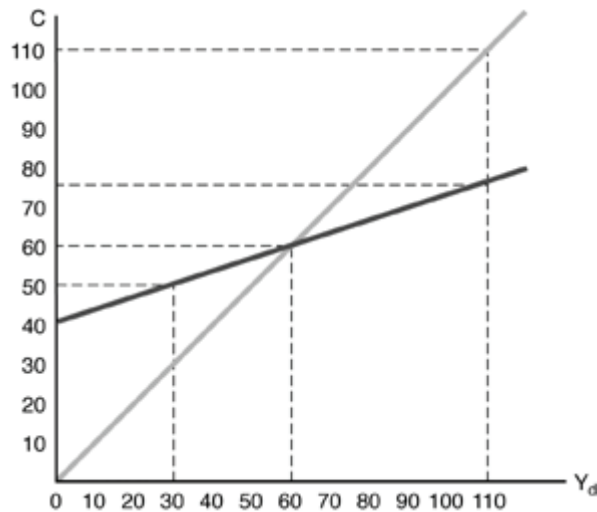
Answer: D

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition



- 167) Consider the above figure. Autonomous consumption, in this scenario, is equal to
 A) \$30. B) \$40. C) \$60. D) \$80.

Answer: B

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 168) Consider the above figure. At an income of \$60 we would expect saving to be equal to
 A) \$60. B) \$40. C) \$10. D) \$0.

Answer: D

Diff: 3

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 169) Consider the above figure. At income level $Y_d = \$30$, the APC is equal to
 A) 1.25. B) 1.67. C) 1.05. D) 0.05.

Answer: B

Diff: 3

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 170) Consider the above figure. At income level $Y_d = \$110$, the APS is equal to
 A) 0.64. B) 0.32 C) 1.10. D) -0.36.

Answer: B

Diff: 3

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

176) Which of the following changes will shift the consumption function upward?

- A) an increase in wealth
- B) a decrease in wealth
- C) a decrease real disposable income
- D) an increase in real disposable income.

Answer: A

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

177) According to Keynes, real saving and real consumption spending are functions of

- A) economic expectations.
- B) an individual's future earning potential.
- C) current educational attainment.
- D) current real disposable income.

Answer: D

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB:

Question Status: Previous Edition

178) The consumption function shows the relationship between planned real consumption spending and

- A) real disposable income.
- B) planned real saving.
- C) the average propensity to consume.
- D) the marginal propensity to consume.

Answer: A

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

179) The saving function shows the relationship between planned real saving and

- A) real wealth.
- B) real disposable income.
- C) the average propensity to save.
- D) the marginal propensity to save.

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

180) The relationship between real consumption spending and real disposable income

- A) is direct.
- B) is inverse.
- C) plots a vertical line.
- D) plots a horizontal line.

Answer: A

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

181) If real disposable income increases, the average propensity to consume will

- A) initially increase, and then decrease.
- B) remain constant.
- C) increase.
- D) decrease.

Answer: D

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

182) If real disposable income increases, the average propensity to save will

- A) initially increase, and then decrease.
- B) remain constant.
- C) increase.
- D) decrease.

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

183) Autonomous consumption

- A) is measured by the slope of the consumption function.
- B) is the reciprocal of consumption.
- C) is equal to the minimum savings.
- D) is measured by the intercept of the consumption function and the Y-axis.

Answer: D

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

184) Autonomous consumption is defined as

- A) the level of real consumption spending that is independent of real disposable income.
- B) the real consumption spending by the autonomous government.
- C) the level of real consumption spending that is equal to real disposable income.
- D) the consumption of foreign-made goods independent of exchange rates.

Answer: A

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

185) With reference to the consumption function, the 45-degree line represents

- A) the planned savings function.
- B) all points at which planned real saving is equal to real disposable income.
- C) all points at which planned real saving is equal to planned real consumption spending.
- D) all points at which real disposable income is equal to real consumption spending.

Answer: D

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 186) In the consumption function model, the 45-degree line represents where
- A) the real disposable income is equal to zero.
 - B) planned real saving is equal to zero.
 - C) planned real consumption spending is equal to zero.
 - D) planned real saving is greater than actual real savings.

Answer: B

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 187) The average propensity to consume (APC) is
- A) the rate at which real consumption spending changes over time.
 - B) the percentage of real disposable income saved.
 - C) the percentage of real disposable income consumed.
 - D) the percentage of additional real disposable income that will go toward additional consumption spending.

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 188) The average propensity to save (APS) is
- A) the rate at which real savings changes over time.
 - B) the percentage of real disposable income saved.
 - C) the difference between the amounts of real disposable income consumed and saved.
 - D) the percentage of additional real disposable income that will go toward real saving.

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 189) The marginal propensity to consume (MPC) is
- A) the rate at which real consumption spending changes over time.
 - B) the percentage of real disposable income saved.
 - C) the percentage of real disposable income consumed.
 - D) the percentage of an additional dollar of real disposable income that will go toward additional real consumption spending.

Answer: D

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 190) The marginal propensity to save (MPS) is
- A) the rate at which real savings changes over time.
 - B) the percentage of real disposable income saved.
 - C) the difference between the amounts of real disposable income consumed and saved.
 - D) the percentage of an additional dollar of real disposable income that will go toward additional real savings.

Answer: D

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 191) The slope of the consumption function is the
- A) MPC.
 - B) APC.
 - C) APS.
 - D) MPS.

Answer: A

Diff: 3

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 192) The slope of the saving function is the
- A) MPC.
 - B) APC.
 - C) MPS.
 - D) APS.

Answer: C

Diff: 3

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 193) Dissaving occurs when
- A) households deposit unusually large amounts of money into their savings account.
 - B) households reduce their planned monthly saving.
 - C) consumption spending exceeds real disposable income.
 - D) the average saving rate for the nation unexpectedly falls.

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

Real Disposable Income	Real Planned Consumption
\$0	\$20
\$50	\$60
\$75	\$80
\$100	\$100
\$125	\$120
\$150	\$140

194) Use the above table. The autonomous consumption in this table is

- A) \$140. B) \$20. C) \$0. D) \$50.

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

195) Use the above table. Dissaving occurs up to a disposable income level of

- A) \$0. B) \$50. C) \$100. D) \$150.

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

196) Use the above table. Which of the following is true if real disposable income is \$150?

- A) APC is less than MPC. B) APC = 0.8.
C) APS = 0.2. D) APS is less than MPS.

Answer: D

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

197) Use the above table. When real disposable income is \$125,

- A) APC = 0.96. B) APC = 0.80. C) APS = 0.20. D) MPS = 0.96.

Answer: A

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

198) Use the above table. We can infer from the table that when real disposable income is \$175,

- A) APC = 0.91. B) APC = 0.80. C) APC = 0.20. D) APC = 0.09.

Answer: A

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

199) Use the above table. The MPC is

- A) 0.91. B) 0.80. C) 0.20. D) 0.09.

Answer: B

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

200) Use the above table. The MPS is

- A) 0.91. B) 0.80. C) 0.20. D) 0.09.

Answer: C

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

201) Use the above table. At an income of \$50,

- A) real saving is \$20. B) real dissaving is \$10.
C) real saving is \$10. D) real dissaving is \$50.

Answer: B

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

202) Use the above table. At an income of \$150,

- A) real saving is \$20. B) real dissaving is \$10.
C) real saving is \$10. D) real dissaving is \$50.

Answer: C

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

203) When graphing the consumption function, what purpose is served by the 45-degree line?

- A) It identifies all the points at which saving and consumption spending are equal.
B) It identifies all the points at which real disposable income and planned real consumption spending are equal.
C) It identifies all the points at which real planned investment expenditure and real autonomous consumption spending are equal.
D) It identifies all the points where real dissaving and saving are equal.

Answer: B

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 204) Autonomous consumption is the level of consumption that is
- A) consistent with the average standard of living.
 - B) observed at the poverty line.
 - C) independent of real income.
 - D) available to someone earning the minimum wage.

Answer: C

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 205) At the point at which the consumption function intersects the 45 degree reference line
- A) planned real consumption equals real disposable income.
 - B) equilibrium output is supply determined equilibrium output is determined by both.
 - C) planned real saving equals real disposable income.
 - D) planned real consumption of real disposable income equals zero.

Answer: A

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 206) According to the Keynesian model, what are the two components of consumption spending? What determines how consumption changes when real disposable income changes? Explain.

Answer: Autonomous consumption is the part of consumption that does not depend on disposable income. It is the amount of consumption expenditures a person makes when disposable income is zero. The other part of consumption varies as real disposable income varies. The marginal propensity to consume is the change in consumption expenditures divided by the change in real disposable income. Keynes argued that when people receive an increase in disposable income, they respond by increasing their consumption expenditures, but by a smaller amount. They also increase their saving.

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 207) What is the primary determinant of real saving and real consumption according to Keynes? Explain.

Answer: Keynes argued that real consumption and real saving depend primarily on an individual's current real disposable income. As someone's real disposable income rises, Keynes expected the person's real consumption spending and real saving to increase, too. He argued that individuals did not respond to the interest rate in making decisions about real saving.

Diff: 1

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

- 208) Suppose the marginal propensity to consume is 0.75. What does this mean? What do we know about the marginal propensity to save? What do we know about the average propensity to consume?

Answer: A marginal propensity to consume of 0.75 means that a consumer will increase real consumption spending \$75 for every \$100 increase in real disposable income. Since a person either consumes or saves real disposable income, the marginal propensity to save must be 0.25. We do not know what the average propensity to consume is. It depends on the level of real disposable income.

Diff: 2

Topic: 12.2 Determinants of Planned Consumption and Planned Saving

AACSB: Analytic skills

Question Status: Previous Edition

12.3 Determinants of Investment

- 1) Compared to consumption spending, investment historically has tended to be
 A) greater. B) more stable. C) stagnant. D) more variable.

Answer: D

Diff: 1

Topic: 12.3 Determinants of Investment

AACSB:

Question Status: Previous Edition

- 2) Which of the following would increase the level of planned real investment?
 A) An increase in the interest rate B) An expectation of higher future profits
 C) An expectation of higher future costs D) An increase in business taxes

Answer: B

Diff: 1

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 3) Which of the following is NOT included in the flow of investment spending that is part of total planned expenditures in the economy?
 A) Purchases of corporate stock B) Spending on capital goods
 C) Inventory investment D) Fixed investment

Answer: A

Diff: 1

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 4) The planned investment function shows that
- A) real gross investment falls as real NNP increases.
 - B) a negative relationship exists between the level of planned investment and the interest rate.
 - C) a positive relationship exists between planned consumption and planned investment.
 - D) at higher levels of planned saving, planned investment increases.

Answer: B

Diff: 1

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 5) An increase in the interest rate will cause
- A) planned investment spending to increase.
 - B) planned investment spending to decrease.
 - C) the investment function to shift out.
 - D) the investment function to shift in.

Answer: B

Diff: 2

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 6) The investment function is represented by
- A) an inverse relationship between the interest rate and the value of planned investment.
 - B) the direct relationship between the interest rate and the value of planned investment.
 - C) the direct relationship between taxes and government spending.
 - D) the indirect relationship between taxes and government spending.

Answer: A

Diff: 2

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 7) What happens as interest rates fall?
- A) The number of profitable investment opportunities declines.
 - B) The opportunity cost of using retained earnings to finance investment spending declines.
 - C) Planned investment spending also falls.
 - D) Planned investment spending remains constant since it depends on profit projections not interest rates.

Answer: B

Diff: 2

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 8) In the Keynesian model, planned investment is inversely related to
- A) the interest rate.
 - B) the level of income.
 - C) the wage rate.
 - D) the tax rate.

Answer: A

Diff: 1

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 9) If business executives become more optimistic about the future, we would expect that
- A) the investment curve would shift outward to the right.
 - B) the saving function would shift up.
 - C) the consumption curve would shift up.
 - D) investment spending would decrease.

Answer: A

Diff: 2

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 10) The investment function would shift inward to the left if
- A) real disposable income decreased.
 - B) interest rates increased.
 - C) there was an increase in business taxes.
 - D) there was a positive change in productive technology.

Answer: C

Diff: 2

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 11) An increase in the interest rate results in
- A) a smaller opportunity cost of investment and so planned investment spending increases.
 - B) a smaller opportunity cost of investment and so planned investment spending decreases.
 - C) a greater opportunity cost of investment and so planned investment spending decreases.
 - D) a greater opportunity cost of investment and so planned investment spending increases.

Answer: C

Diff: 2

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: New

- 12) All of the following will cause an outward shift of the investment function EXCEPT
- A) innovation that improves production efficiency at every level of output.
 - B) a reduction in business taxes.
 - C) business people becoming optimistic about the future.
 - D) a decrease in the interest rate.

Answer: D

Diff: 1

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 13) The planned investment function will shift downward if
- A) real disposable income increases.
 - B) the interest rate falls.
 - C) business expectations become more pessimistic.
 - D) the existing stock of capital decreases.

Answer: C

Diff: 1

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Revised

- 14) Technological progress should lead to
- A) an outward (rightward) shift in the investment function.
 - B) a downward movement of the investment function.
 - C) an unchanged investment function.
 - D) less saving.

Answer: A

Diff: 1

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 15) Which of the following would cause a leftward shift in the investment function?
- A) Technological progress
 - B) A reduction in the rate of interest
 - C) Optimistic expectations about business conditions
 - D) An increase in business taxes

Answer: D

Diff: 1

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 16) For an investment to be considered autonomous, it must
- A) be negatively related to the interest rate.
 - B) increase as the level of income increases.
 - C) include fixed components.
 - D) be independent of the level of real disposable income.

Answer: D

Diff: 1

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 17) In Keynesian analysis, if investment remains constant when income changes, the investment is called
- A) planned.
 - B) autonomous.
 - C) unplanned.
 - D) discretionary.

Answer: B

Diff: 1

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Revised

- 18) Of the relationships below, which is the least stable?
- A) Consumption
 - B) Saving
 - C) Investment
 - D) Net exports

Answer: C

Diff: 1

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 19) A firm will invest in a project if
- A) the interest rate exceeds the opportunity cost of the project.
 - B) the firm's level of capital is at the desired level.
 - C) the firm's level of capital is higher than the desired level.
 - D) the rate of return of the project is greater than the opportunity cost of the investment.

Answer: D

Diff: 1

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 20) Investment spending is
- A) directly related to the interest rate.
 - B) inversely related to the interest rate.
 - C) directly related to real disposable income.
 - D) inversely related to real disposable income.

Answer: B

Diff: 2

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 21) Which of the following is a true statement relative to retained earnings and investment?
- A) Lower interest rates stimulate borrowing for investment, but have no effect on the use of retained earnings for investment spending.
 - B) Lower interest rates stimulate borrowing for investment, but discourage the use of retained earnings for investment.
 - C) Lower interest rates reduce the opportunity cost of retained earnings, stimulating the use of these funds in investment.
 - D) Lower interest rates have no effect on investment spending at all because investment spending is autonomous.

Answer: C

Diff: 2

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 22) The investment function will shift when there is a change in
- A) the interest rate.
 - B) firms' profit expectations.
 - C) the cost of borrowing.
 - D) the opportunity cost of retained earnings.

Answer: B

Diff: 1

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 23) Which of the following will NOT lead to a shift in the investment function?
- A) A firm downgrades its future profitability.
 - B) A new discovery leads to a technological advancement.
 - C) The government just lowered business taxes.
 - D) The cost of borrowing has just decreased.

Answer: D

Diff: 1

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 24) Which one of the following statements is true?
- A) Over the years, real consumption spending has been more volatile than real investment spending.
 - B) Over the years, real investment spending has been more volatile than real consumption spending.
 - C) Domestic real investment in the United States was highest during the Great Depression.
 - D) In the Keynesian model, changes in the volume of real investment spending are fully explained by changes in the real interest rate.

Answer: B

Diff: 2

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 25) Changes in real planned investment spending have
- A) a direct relationship to changes in interest rates.
 - B) an inverse relationship to changes in the interest rate.
 - C) no identifiable relationship to changes in the interest rate.
 - D) a direct relationship to changes in the level of household savings.

Answer: B

Diff: 1

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 26) When the investment is graphed as a function of real GDP,
- A) it graphs as a vertical straight line.
 - B) it graphs as a 45-degree line starting at the indicated level of investment.
 - C) it graphs as a negatively sloped line indicating the inverse relationship between interest rates and investment.
 - D) it graphs as a horizontal straight line at the level of investment.

Answer: D

Diff: 2

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 27) Which one of the following statements is true?
- A) The investment function is positively sloped to reflect the fact that higher interest rates cause more people to invest their funds.
 - B) The investment function is positively sloped to reflect the fact that lower interest rates cause more firms to expand their operations.
 - C) Along a given investment function, higher interest rates result in more investment projects being undertaken.
 - D) Along a given investment function, higher interest rates result in fewer investment projects being undertaken.

Answer: D

Diff: 3

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 28) Aging baby-boomers, predisposed to hearing loss because of years of listening to loud music, are now approaching the age range in which hearing loss starts to become apparent. What effect does this have on investment spending within the hearing aid industry?
- A) There will no longer be an opportunity cost associated with investment spending.
 - B) There will be no change in real investment spending, because hearing aid manufacturers will look only at the interest rate in determining whether to expand production.
 - C) The investment function relating planned real investment spending to the interest rate can be expected to shift rightward.
 - D) The investment function relating planned real investment spending to the interest rate can be expected to shift leftward.

Answer: C

Diff: 3

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 29) The investment function tells us, at any given interest rate,
- A) how many funds people will invest in the stock market.
 - B) how many funds people will earn on their stock market investments.
 - C) how profitable it will be for firms to expand.
 - D) how much businesses will spend on adding to the capital stock.

Answer: D

Diff: 2

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 30) Based on historical data, which of the following tended to be most variable over time?
- A) real consumption spending
 - B) real saving
 - C) real investment spending
 - D) the average propensity to consume

Answer: C

Diff: 2

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Revised

- 31) One of the primary determinants of planned real investment spending is the
- A) expectation of future profits.
 - B) rate of real consumption spending.
 - C) rate of real government spending.
 - D) rate of real saving.

Answer: A

Diff: 2

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 32) What would happen to the planned investment function if business taxes were increased?
- A) It would shift to the right.
 - B) It would shift to the left.
 - C) It would shift upward.
 - D) There would be no change.

Answer: B

Diff: 2

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 33) Which would increase real planned investment demand?
- A) a decrease in new technologies available
 - B) a decline in profit expectations
 - C) a decrease in business taxes
 - D) an increase in nominal interest rates

Answer: C

Diff: 2

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 34) A decrease in interest rates will
- A) shift the investment function relating planned investment to the interest rate to the right.
 - B) shift the investment function relating planned investment to the interest rate to the left.
 - C) be a movement along the investment function relating planned investment to the interest rate.
 - D) have no impact on the investment function relating planned investment to the interest rate.

Answer: C

Diff: 2

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 35) All of the following would cause the investment function relating investment to the interest rate to shift EXCEPT
- A) a change in the real interest rate.
 - B) a change in producer expectations of future profit.
 - C) a change in planned capital goods expenditure.
 - D) a change in productive technology.

Answer: A

Diff: 2

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 36) If businesses expect the economic activity to expand,
- A) the planned investment function relating investment to the interest rate will shift to the left.
 - B) the planned investment function relating investment to the interest rate will remain unchanged, but will move downward along the curve.
 - C) the planned investment function relating investment to the interest rate will steepen.
 - D) the planned investment function relating investment to the interest rate will shift to the right.

Answer: D

Diff: 2

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 37) Real planned investment spending is inversely related to
- A) real disposable income.
 - B) wealth.
 - C) the interest rate.
 - D) producer expectations of future profit.

Answer: C

Diff: 1

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 38) The relationship between planned real investment spending and the interest rate is
- A) inverse.
 - B) direct.
 - C) constant.
 - D) highly volatile.

Answer: A

Diff: 1

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 39) If we observe that interest rates rise but real investment spending still increases, what must have happened to the function relating investment to the interest rate?
- A) It shifted to the right.
 - B) It shifted to the left.
 - C) There was a movement up the function relating investment to the interest rate.
 - D) There was a movement down the function relating investment to the interest rate.

Answer: A

Diff: 2

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Revised

- 40) The investment schedule is downward sloping and the saving schedule is upward sloping with respect to the interest rate. Suppose the equilibrium real investment per year at the market rate of interest is \$1 trillion. How is this represented when real national income per year is on the horizontal axis? How is this incorporated into the consumption–function graph?

Answer: Investment spending is a function of the interest rate, but it is autonomous with respect to real Gross Domestic Product (GDP). So the investment function is a horizontal line at \$1 trillion when real Gross Domestic Product (GDP) per year is on the horizontal axis. The $C + I$ curve is found by vertically summing the upward sloping consumption curve with the horizontal investment curve. The $C + I$ curve slopes up and is always \$1 trillion higher than the C curve.

Diff: 3

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

- 41) What determines investment in the Keynesian framework? How is investment related to real Gross Domestic Product (GDP)?

Answer: Investment is determined by business people based on their views of what the economic future looks like. Other things equal, investment spending is inversely related to the interest rate. Investment is treated as autonomous and not as a function of real Gross Domestic Product (GDP).

Diff: 2

Topic: 12.3 Determinants of Investment

AACSB: Analytic skills

Question Status: Previous Edition

12.4 Determining Equilibrium Real GDP

- 1) If firms' unplanned inventories are increasing, then in a closed, private economy,
- A) the level of real national income will rise.
 - B) the level of real national income will not change in the foreseeable future.
 - C) actual consumption is greater than planned consumption.
 - D) consumers are saving more than businesses anticipated.

Answer: D

Diff: 1

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 2) Ignoring the government and foreign sectors, equilibrium real Gross Domestic Product (GDP) is determined by
- A) the intersection of the planned saving and planned investment schedules.
 - B) the intersection of the planned saving and planned consumption schedules.
 - C) the intersection of the consumption function with the 45-degree line.
 - D) finding the real Gross Domestic Product (GDP) for which real savings are zero.

Answer: A

Diff: 1

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 3) Ignoring the government and foreign sectors, if planned investment spending is \$500 billion, planned saving is \$800 billion, and real Gross Domestic Product (GDP) is \$13 trillion, then unplanned inventories will
- A) decrease \$300 billion.
B) increase \$300 billion.
C) increase \$800 billion.
D) not change.

Answer: B

Diff: 2

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 4) Ignoring the government and foreign sectors, there is an unplanned decrease in inventories of \$200 billion at the current level of real national income of \$12 trillion. From this information, we know that
- A) saving equals \$200 billion.
 - B) consumption expenditures equal \$12 trillion less saving less \$200 billion.
 - C) planned investment is \$200 billion more than planned saving.
 - D) planned investment is \$200 billion less than planned saving.

Answer: C

Diff: 1

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 5) A permanent increase in autonomous investment causes
- A) a more than proportional increase in real Gross Domestic Product (GDP).
 - B) a proportional increase in real Gross Domestic Product (GDP).
 - C) a less than proportional increase in real Gross Domestic Product (GDP).
 - D) an offsetting change in saving that leaves real Gross Domestic Product (GDP) at the same level.

Answer: A

Diff: 1

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 6) Using real GDP on the horizontal axis instead of real disposable income implies that a marginal propensity to consume 0.75 generates for every additional \$100 of real GDP
- A) \$75 of additional real disposable income.
 - B) \$25 of additional saving.
 - C) \$56.25 of additional consumption spending.
 - D) \$25 of additional saving and taxes.

Answer: D

Diff: 3

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 7) The 45-degree reference line indicates all points at which
- A) planned real consumption expenditures and planned real saving are equal.
 - B) planned real saving and planned real investment are equal.
 - C) planned real consumption expenditures and real GDP are equal.
 - D) planned real saving and planned real saving are equal.

Answer: C

Diff: 1

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 8) Investment is
- A) a positive function of real GDP.
 - B) a negative function of real GDP.
 - C) autonomous with respect to real GDP.
 - D) a positive function of interest rates.

Answer: C

Diff: 1

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 9) The investment function intersects the saving schedule at an interest rate of 8 percent and a level of investment of \$1.2 trillion a year. If the consumption curve intersects the 45-degree reference line at \$3 trillion, then
- A) the $C + I$ curve will intersect the 45-degree reference line at \$1.2 trillion.
 - B) the $C + I$ curve will intersect the 45-degree line at \$1.8 trillion.
 - C) the equilibrium level of real GDP is \$1.8 trillion.
 - D) the equilibrium level of real GDP is \$4.2 trillion.

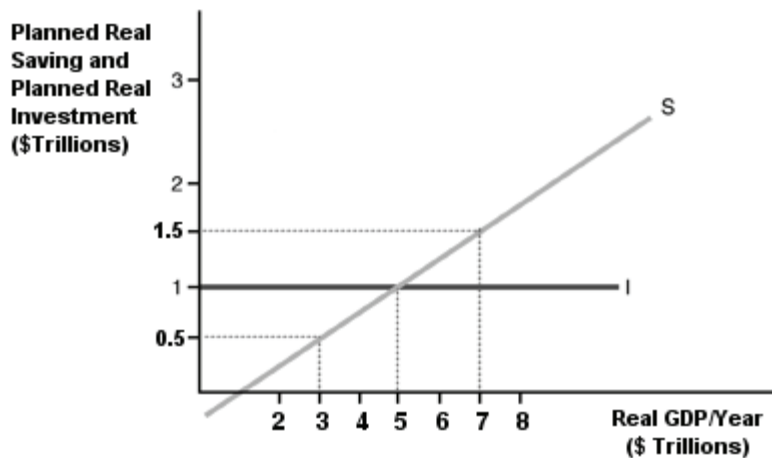
Answer: D

Diff: 3

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition



10) Refer to the above figure. Which variable is autonomous with respect to real GDP?

- A) Real saving
- B) Real investment spending
- C) Real consumption spending
- D) The sum of real consumption and real saving

Answer: B

Diff: 2

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

11) Refer to the above figure. If real GDP is \$4 trillion, then

- A) consumption expenditures are too low.
- B) unplanned inventories will decrease.
- C) unplanned inventories will increase.
- D) actual investment spending equals \$1 trillion as planned investment spending plus unplanned inventory increases equal \$1 trillion.

Answer: C

Diff: 3

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

12) Refer to the above figure. At real GDP of \$1 trillion, actual investment equals

- A) planned investment of \$1 trillion.
- B) planned saving of \$1 trillion.
- C) actual saving of 0.
- D) unanticipated inventory adjustments of \$1 trillion.

Answer: D

Diff: 2

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 13) For a closed economy with no government, we know that at every level of GDP actual investment equals

- A) planned investment.
- B) planned saving.
- C) the difference between planned saving and actual saving.
- D) the difference between planned investment and actual saving.

Answer: B

Diff: 3

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 14) Supposed actual investment is greater than planned investment at the current level of output in 2010. Given this information, we know that

- A) GDP will tend to increase over time.
- B) firms' stock of inventories must have increased unexpectedly in 2010.
- C) saving must be less than planned investment.
- D) saving must be equal to planned investment.

Answer: B

Diff: 2

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 15) In the Keynesian model, whenever planned investment is greater than planned saving,

- A) the amount of planned investment will decrease, and real GDP will decrease.
- B) the amount of planned investment will decrease, and real GDP will remain unchanged.
- C) there will be an unplanned inventory decrease, and GDP will eventually increase.
- D) there will be an unplanned inventory increase, and GDP will eventually decrease.

Answer: C

Diff: 1

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 16) In the Keynesian model, whenever planned investment is less than planned saving,

- A) the amount of planned investment will decrease, and real GDP will decrease.
- B) the amount of planned investment will decrease, and real GDP will remain unchanged.
- C) there will be an unplanned inventory decrease, and real GDP will eventually increase.
- D) there will be an unplanned inventory increase, and real GDP will eventually decrease.

Answer: D

Diff: 1

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 17) In the Keynesian model, whenever planned saving exceeds planned investment,
- A) there will be unplanned inventory accumulation.
 - B) there will be unplanned inventory depletion.
 - C) real GDP will not be influenced.
 - D) the interest rate will remain unchanged.

Answer: A

Diff: 1

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 18) In the Keynesian model, whenever planned saving is less than planned investment,
- A) there will be unplanned inventory accumulation.
 - B) there will be unplanned inventory depletion.
 - C) real GDP will not be influenced.
 - D) the interest rate will remain unchanged.

Answer: B

Diff: 1

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 19) Along the 45-degree reference line,
- A) total planned real expenditures = real GDP.
 - B) total planned real expenditures = planned nominal expenditures.
 - C) total planned nominal expenditures = consumption.
 - D) total planned investment spending = planned real expenditures.

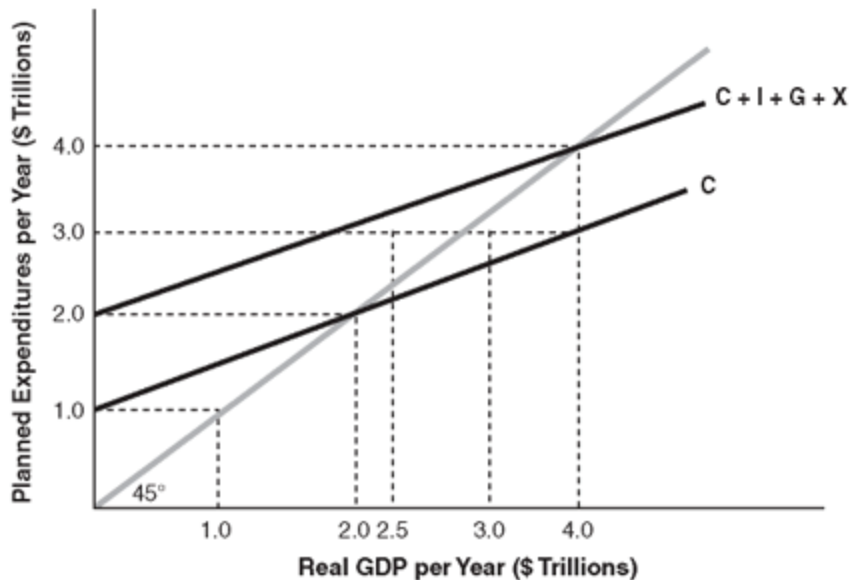
Answer: A

Diff: 2

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition



- 20) In the above figure, what is autonomous consumption?
 A) \$0.0 trillion B) \$1.0 trillion C) \$2.0 trillion D) \$3.0 trillion

Answer: B

Diff: 1

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 21) In the above figure, what is the equilibrium level of real consumption spending?
 A) \$0.0 trillion B) \$1.0 trillion C) \$2.0 trillion D) \$3.0 trillion

Answer: C

Diff: 1

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Revised

- 22) When graphing the consumption function, we include a 45-degree reference line. What is true at the points at which the consumption function crosses this line?
 A) Planned real saving is zero.
 B) Planned real consumption spending is zero.
 C) Real disposable income is zero.
 D) Real GDP is zero.

Answer: A

Diff: 2

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 23) Suppose that there is no government and no international trade. When $C + I$ is less than the level of real GDP,
- A) unplanned inventories decrease, and real GDP expands.
 - B) unplanned inventories increase, and real GDP contracts.
 - C) unplanned inventories equal zero, and there is no change in the level of real GDP.
 - D) real planned investment spending equals real planned saving.

Answer: B

Diff: 2

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 24) Autonomous real investment spending is
- A) the level of investment expenditure required to keep the economy expanding at its current growth rate.
 - B) the level of investment expenditure that is independent of real GDP.
 - C) the level of investment expenditure required to replace capital lost to depreciation.
 - D) the level of investment expenditure that would prevail if interest rates were zero.

Answer: B

Diff: 2

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 25) When real GDP is in equilibrium with no government and no international trade,
- A) real planned investment spending equals real planned saving.
 - B) real planned investment equals real planned consumption spending.
 - C) unplanned inventories are increasing.
 - D) unplanned inventories are decreasing.

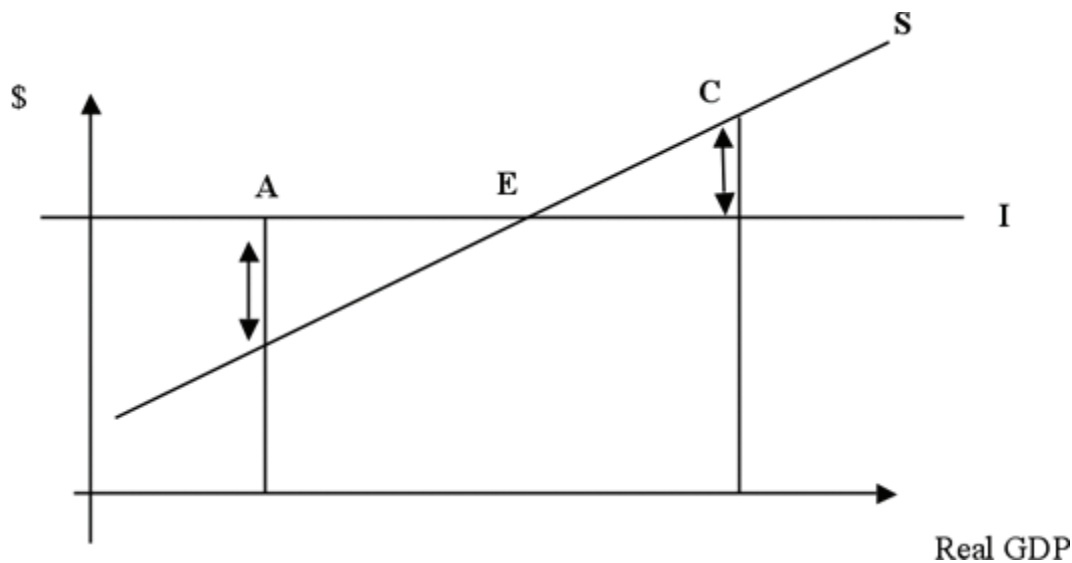
Answer: A

Diff: 2

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition



- 26) In the above figure, point E represents the level of real GDP at which planned saving equals planned investment. At point A,
- A) unplanned inventories increase.
 - B) changes in inventories cannot be determined.
 - C) unused industrial capacity exists in the economy.
 - D) unplanned inventories decrease.

Answer: D

Diff: 3

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Revised

- 27) In the above figure, point E represents the level of real GDP at which planned saving equals planned investment. At point C,
- A) unplanned inventories increase.
 - B) changes in inventories cannot be determined.
 - C) unused industrial capacity exists in the economy.
 - D) unplanned inventories decrease.

Answer: A

Diff: 3

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Revised

- 28) When real planned saving is greater than real planned investment spending,
- A) the interest rate will increase.
 - B) the interest rate will decrease.
 - C) real GDP will increase.
 - D) real GDP will decrease.

Answer: D

Diff: 2

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

29) What is the result when real planned saving exceeds real planned investment spending?

- A) The economy is in equilibrium.
- B) There is unplanned accumulation of business inventories.
- C) There is unplanned depletion of business inventories.
- D) Employment expands.

Answer: B

Diff: 2

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

30) Consider a closed economy without a government and without international trade. What will be true when this economy is in equilibrium?

- A) Total planned real investment spending will exceed total planned real expenditures.
- B) Planned real investment spending will exceed real planned saving.
- C) Planned real consumption spending equals real GDP.
- D) Planned real consumption spending plus planned real investment spending equals real GDP.

Answer: D

Diff: 2

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

31) Real consumption is a function of real disposable income, but the simple Keynesian model uses real GDP instead of real disposable income. This is appropriate since

- A) real disposable income tends to move proportionately with real GDP.
- B) real disposable income is a fixed percentage of real GDP.
- C) real GDP is a fixed percentage of real disposable income.
- D) we cannot measure either exactly and the purpose of the exercise is theoretical only.

Answer: A

Diff: 3

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

32) In a closed economy, equilibrium real Gross Domestic Product (GDP) occurs where

- A) the $C + I + G$ line crosses the 45-degree line.
- B) planned expenditures exceed national income.
- C) saving exceeds planned investment.
- D) all of these.

Answer: A

Diff: 1

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 33) If real Gross Domestic Product (GDP) is at an equilibrium level in a closed economy,
- A) $C + I + G = \text{real GDP}$.
 - B) saving will be less than planned investment.
 - C) unplanned inventory accumulation will equal planned inventory accumulation.
 - D) $C + T - G = \text{real GDP}$.

Answer: A

Diff: 1

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 34) In the simple Keynesian model, why does actual investment spending have to equal saving in the absence of the government and foreign sectors? Is this true only for the equilibrium? Explain.

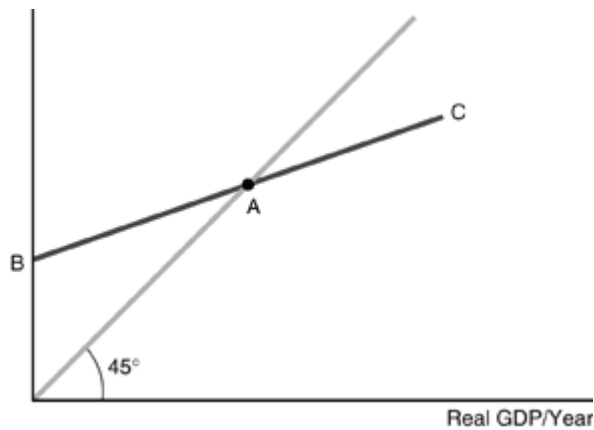
Answer: Real Gross Domestic Product (GDP) equals actual investment spending plus consumption spending, and real Gross Domestic Product (GDP) equals consumption spending plus saving. Therefore, actual investment spending and saving are always equal. However, planned investment spending and saving are not always equal. When they are not equal, unplanned changes in inventories make actual investment spending and saving equal. In equilibrium, planned investment and saving are equal.

Diff: 2

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition



- 35) The above figure shows a consumption function and a 45-degree line. Real consumption is a function of disposable income. Why is real GDP used here instead? What is measured along the vertical axis? What is measured by point B? Explain the significance of point A.

Answer: Real disposable income is less than real GDP, but can be derived from real GDP. If we assume that real disposable income is the same proportion of real GDP every year, then the change is appropriate. Real GDP is used because we want to find the equilibrium real GDP. Planned consumption expenditures are measured on the vertical axis, and point B measures autonomous consumption. At A, planned consumption spending equals real GDP. Saving equals zero at point A.

Diff: 2

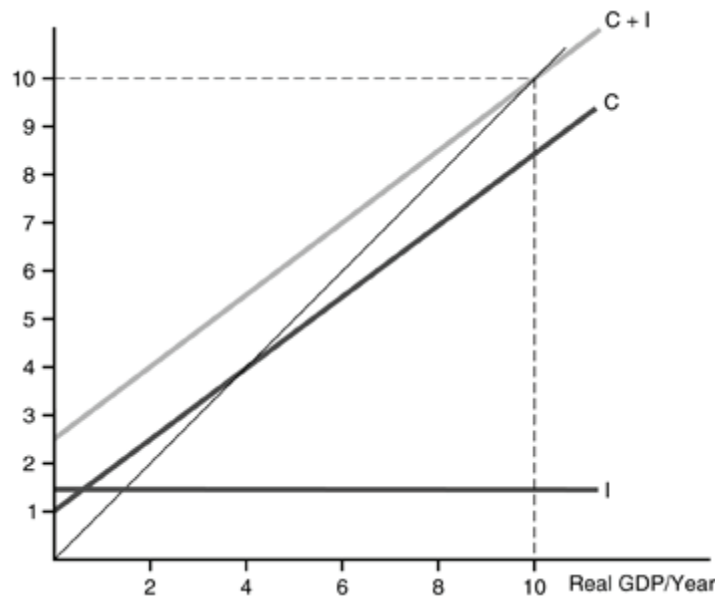
Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 36) Suppose autonomous consumption is \$1 trillion, investment spending is \$1.5 trillion, and the marginal propensity to consume is 0.75. Show the graph for the $C + I$ curve. What is the equilibrium level of real GDP? Explain its meaning.

Answer: In the below figure, the C curve has a vertical intercept at \$1 trillion, indicating autonomous consumption spending. Investment spending is constant at \$1.5 trillion, so the vertical intercept for the $C + I$ curve is \$2.5 trillion. Equilibrium real GDP is \$10 trillion—where the $C + I$ curve intersects the 45-degree line. At this point, planned expenditures exactly equals real GDP. Further, saving equals investment (\$1.5 trillion). Consumption spending is \$8.5 trillion.

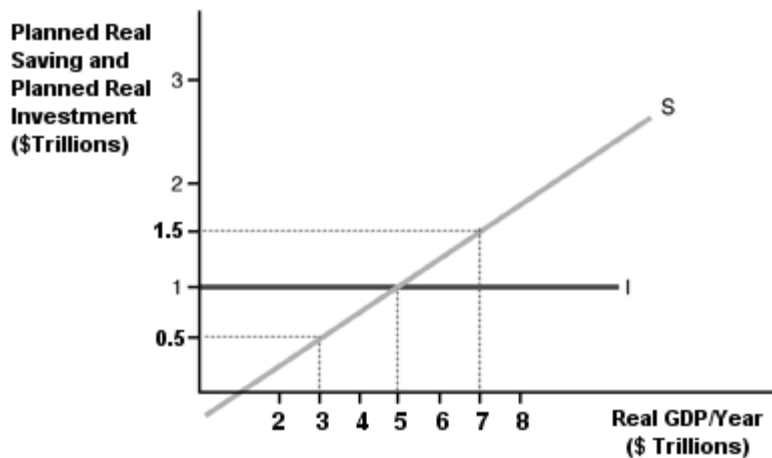


Diff: 3

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition



- 37) In the above diagram, what happens if the real GDP is \$3 trillion? \$5 trillion? \$7 trillion? What is the equilibrium level of real GDP? Why?

Answer: At real GDP of \$3 trillion, planned real investment is greater than real saving, which means households are buying more than producers had anticipated. There is an unplanned inventory decrease of \$500 billion, and businesses increase production and hiring. At \$5 trillion, planned real investment and planned real saving are equal, so this is the equilibrium. At \$7 trillion, planned real saving is greater than planned real investment so there is an unplanned increase in inventories of \$500 billion. Businesses reduce production and lay off workers, forcing real GDP back towards \$6 trillion.

Diff: 3

Topic: 12.4 Determining Equilibrium Real GDP

AACSB: Analytic skills

Question Status: Previous Edition

12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

- 1) Government purchases

A) are determined by the public.

B) are determined by the political process.

C) are influenced by interest rates.

D) are determined by suppliers.

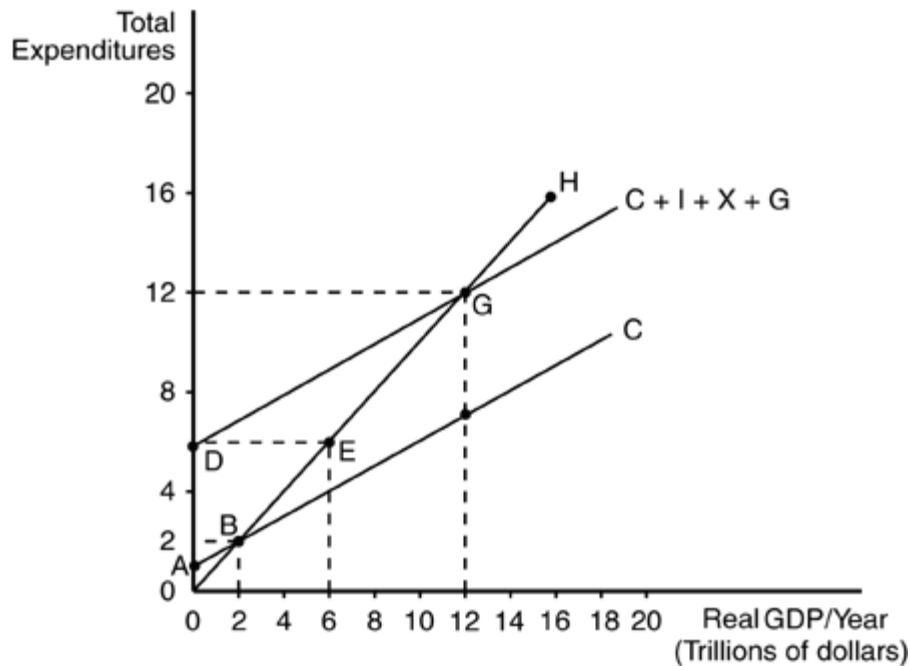
Answer: B

Diff: 2

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition



- 2) Refer to the above figure. The equilibrium level of real Gross Domestic Product (GDP) is
- A) \$6 trillion. B) \$7 trillion. C) \$12 trillion. D) \$20 trillion.

Answer: C

Diff: 1

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

- 3) Refer to the above figure. If real Gross Domestic Product (GDP) is \$2 trillion, then
- A) the level of total planned expenditures is less than real GDP.
 B) the level of total planned expenditures equals real GDP.
 C) the level of total planned expenditures is greater than real GDP.
 D) the level of total planned expenditures equals zero.

Answer: C

Diff: 2

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: New

- 4) Refer to the above figure. If real Gross Domestic Product (GDP) is \$6 trillion, then unplanned business inventories will
- A) rise. B) be zero.
 C) fall. D) be equal to planned inventories.

Answer: C

Diff: 2

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: New

- 5) When real Gross Domestic Product (GDP) exceeds total planned real expenditures,
- A) there will be unplanned decreases in inventories.
 - B) the circular flow will increase.
 - C) a lower level of equilibrium real Gross Domestic Product (GDP) will result.
 - D) a higher level of equilibrium real Gross Domestic Product (GDP) will prevail.

Answer: C

Diff: 1

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

- 6) A higher level of real Gross Domestic Product (GDP) will result if
- A) total planned real expenditures exceed real Gross Domestic Product (GDP).
 - B) aggregate supply exceeds aggregate demand.
 - C) aggregate demand exceeds aggregate supply.
 - D) leakage exceeds injections.

Answer: A

Diff: 1

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

- 7) If, at some level of output, total planned real expenditures are less than real Gross Domestic Product (GDP),
- A) real GDP will rise.
 - B) real GDP remains unchanged.
 - C) real GDP will either fall or remain unchanged, depending on the MPC.
 - D) unplanned inventories will increase and real GDP will fall.

Answer: D

Diff: 1

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

- 8) Suppose the economy is at an equilibrium when $C + I + G + X = \$12$ trillion. If the economy is currently at a real national income level of \$14 trillion, then total planned real expenditures
- A) exceed real Gross Domestic Product (GDP), and real Gross Domestic Product (GDP) will increase.
 - B) are less than real Gross Domestic Product (GDP), and real Gross Domestic Product (GDP) will decline.
 - C) are equal to real Gross Domestic Product (GDP), and there will be no change in real Gross Domestic Product (GDP).
 - D) are less than real Gross Domestic Product (GDP), and real Gross Domestic Product (GDP) will increase.

Answer: B

Diff: 1

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

- 9) Suppose equilibrium for an economy occurs when $C + I + G + X = \$14$ trillion. If the real Gross Domestic Product (GDP) is \$13 trillion, then unplanned inventories are
- A) increasing, and real Gross Domestic Product (GDP) will expand.
 - B) increasing, and real Gross Domestic Product (GDP) will contract.
 - C) decreasing, and real Gross Domestic Product (GDP) will expand.
 - D) decreasing, and real Gross Domestic Product (GDP) will contract.

Answer: C

Diff: 1

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

- 10) If real Gross Domestic Product (GDP) is above its equilibrium level,
- A) firms are not maximizing their profits.
 - B) planned investment is greater than planned saving.
 - C) firms accumulate unplanned inventories.
 - D) planned consumption is less than actual consumption.

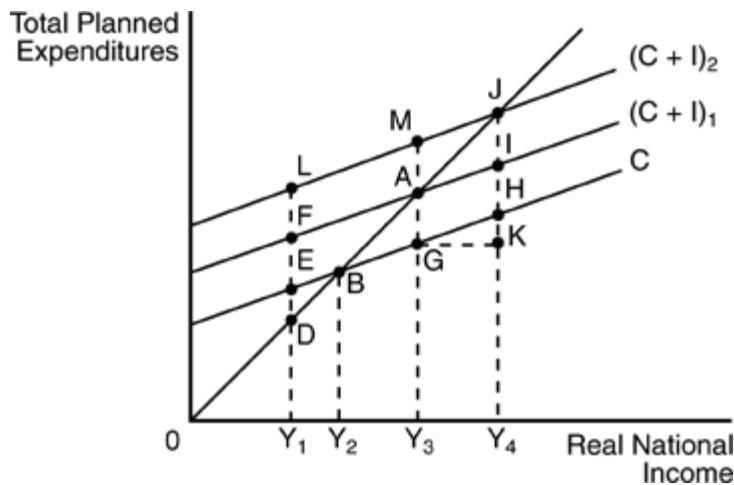
Answer: C

Diff: 1

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition



- 11) In the above figure, at an income level of Y_3 and planned expenditures of $(C + I)_1$,
- A) planned saving exceeds planned investment.
 - B) the economy is in equilibrium.
 - C) the quantity of aggregate demand exceeds real Gross Domestic Product (GDP).
 - D) there is full employment.

Answer: B

Diff: 1

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

- 12) In the above figure, at an income level of Y_1 and planned expenditures of $(C + I)_1$, the level of autonomous investment is

A) ED. B) EF. C) JK. D) GK.

Answer: B

Diff: 1

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

- 13) Total planned expenditures in a closed economy are equal to

A) consumption + investment + government expenditures.
 B) consumption + savings + transfers + investment.
 C) saving + investment + government expenditures.
 D) investment + saving + transfers.

Answer: A

Diff: 1

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

- 14) If the MPC equals 0.75, then

A) for every \$100 increase in consumption, real Gross Domestic Product (GDP) increases by \$75.
 B) consumption is always more than real Gross Domestic Product (GDP).
 C) for every \$100 increase in real Gross Domestic Product (GDP), saving increases by \$75.
 D) for every \$100 increase in real Gross Domestic Product (GDP), saving increases by \$25.

Answer: D

Diff: 1

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

- 15) In the Keynesian model, government spending is considered

A) a positive function of real GDP.
 B) a negative function of real GDP.
 C) to be a negative function of the real interest rate.
 D) to be autonomous.

Answer: D

Diff: 1

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB:

Question Status: Previous Edition

- 16) The following would cause an upward shift in the $C + I + G + X$ curve EXCEPT

A) an increase in disposable income. B) an increase in export spending.
 C) a decrease in import spending D) an increase in household wealth.

Answer: A

Diff: 1

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

- 17) A lump-sum tax, such as a \$1000 tax that every family must pay one time, is
- A) a type of income tax.
 - B) an autonomous tax.
 - C) negatively related to real GDP.
 - D) a regressive tax.

Answer: B

Diff: 1

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

- 18) Which of the following does NOT occur when the economy is operating at the equilibrium level of GDP?
- A) Total planned expenditures equal real GDP.
 - B) Real GDP tends to rise over time.
 - C) Planned investment equals actual investment.
 - D) Inventory investment equals zero.

Answer: B

Diff: 1

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

- 19) When the economy is operating at the equilibrium level of GDP, we know that
- A) total planned real consumption expenditures equal real GDP.
 - B) planned real investment spending equals real net exports of zero.
 - C) total planned real expenditures equal real GDP.
 - D) real net exports equal inventory changes.

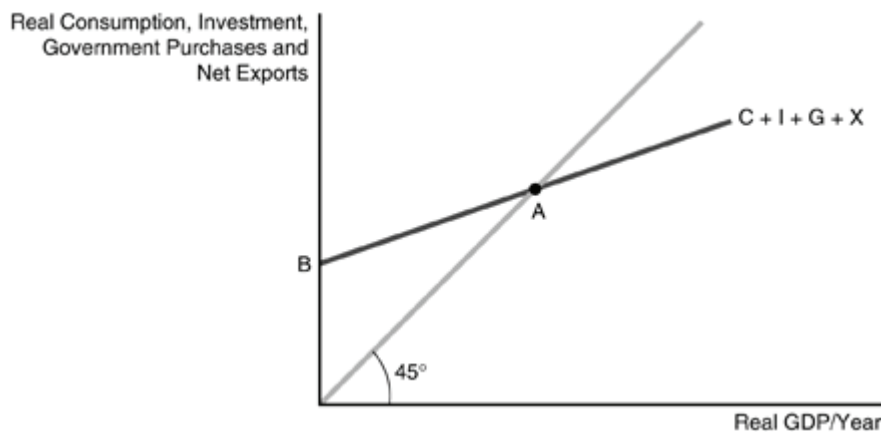
Answer: C

Diff: 2

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition



- 20) Refer to the above figure. The equilibrium level of real GDP occurs
- A) at point A.
 - B) to the right of point A.
 - C) to the left of point A.
 - D) at the undetermined point on the graph depending upon the level of investment.

Answer: A

Diff: 1

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

- 21) Refer to the above figure. Point B
- A) equals autonomous consumption.
 - B) equals autonomous consumption plus autonomous consumption plus planned investment plus autonomous government spending plus autonomous net exports.
 - C) has no special significance.
 - D) equals government expenditures.

Answer: B

Diff: 1

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

Real GDP	Real Net Taxes	Real Disposable Income	Real Consumption Spending	Real Planned Saving	Real Planned Investment	Real Government Spending	Real Net Exports	Total Real Planned Spending
10	2	8	6.8	1.2	1.5	2	0.5	10.8
11	2	9	7.6	1.4	1.5	2	0.5	11.6
12	2	10	8.4	1.6	1.5	2	0.5	12.4
13	2	11	9.2	1.8	1.5	2	0.5	13.2
14	2	12	10.0	2.0	1.5	2	0.5	14.0
15	2	13	10.8	2.2	1.5	2	0.5	14.8
16	2	14	11.6	2.4	1.5	2	0.5	15.6

Note: Amounts in \$ trillions

22) Refer to the above table. Which variables in the table are NOT autonomous?

- A) Taxes, government spending, and saving.
- B) Planned investment, net exports, and government spending.
- C) Planned consumption and planned saving.
- D) Planned saving only.

Answer: C

Diff: 2

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

Real Natl Incm	Txs	Disp. Inc.	Cnsmp. Spnd	Plnd Sav.	Plnd Invst	Gvt Expnd	Net Expt	Plnd Expnd
10	2	8	6.8	1.2	1.5	2	0.5	10.8
11	2	9	7.6	1.4	1.5	2	0.5	11.6
12	2	10	8.4	1.6	1.5	2	0.5	12.4
13	2	11	9.2	1.8	1.5	2	0.5	13.2
14	2	12	10.0	2.0	1.5	2	0.5	14.0
15	2	13	10.8	2.2	1.5	2	0.5	14.8
16	2	14	11.6	2.4	1.5	2	0.5	15.6

23) Refer to the above table. Which variables in the table are NOT autonomous?

- A) Taxes, government spending, and saving.
- B) Planned investment, net exports, and government spending.
- C) Planned consumption and planned saving.
- D) Planned saving only.

Answer: C

Diff: 2

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

24) Refer to the above table. The equilibrium real GDP is

- A) \$12 trillion. B) \$13 trillion. C) \$14 trillion. D) \$15 trillion.

Answer: C

Diff: 3

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

25) Refer to the above table. If real GDP is \$12 trillion, total planned expenditures and unplanned inventory changes are respectively

- A) \$14 trillion and 0. B) \$13.2 trillion and -\$0.8 trillion.
C) \$12.4 trillion and -\$0.4 trillion. D) \$12.4 trillion and \$0.4 trillion.

Answer: C

Diff: 3

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

26) Refer to the above table. When real GDP equals \$10 trillion,

- A) government expenditures will increase. B) the economy is in equilibrium.
C) unplanned inventories will increase. D) unplanned inventories will decrease.

Answer: D

Diff: 3

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

27) Refer to the above table. When real GDP equals \$16 trillion,

- A) government expenditures will increase. B) the economy is in equilibrium.
C) unplanned inventories will increase. D) unplanned inventories will decrease.

Answer: C

Diff: 3

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

28) Whenever total planned expenditures differ from real GDP,

- A) unplanned inventories will remain unchanged.
B) unplanned inventories will change.
C) government spending will adjust.
D) tax revenues will move the economy back to equilibrium.

Answer: B

Diff: 1

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

29) In equilibrium, real GDP is equal to

- A) $C + I + G - X$.
C) $C + I + G + X$.

- B) $C + I + X - G$.
D) $C + I + G + X + S$.

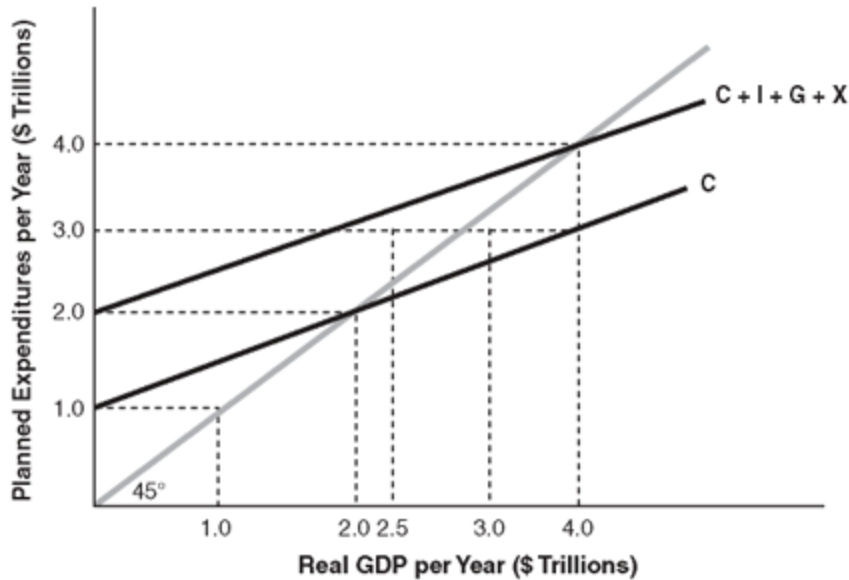
Answer: C

Diff: 1

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition



30) In the above figure, the equilibrium level of real GDP per year is

- A) \$1.0 trillion. B) \$2.0 trillion. C) \$3.0 trillion. D) \$4.0 trillion.

Answer: D

Diff: 1

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

31) In the above figure, the sum of real planned investment spending, government expenditures, and net export spending is equal to

- A) \$0.5 trillion. B) \$1.0 trillion. C) \$1.5 trillion. D) \$2.0 trillion.

Answer: B

Diff: 2

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

- 32) In the above figure, the equilibrium level of planned saving plus net taxes is
A) \$1.0 trillion. B) \$2.0 trillion. C) \$3.0 trillion. D) \$4.0 trillion.

Answer: A

Diff: 2

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

- 33) Which one of the following is true in an open economy with a government sector?
A) The equilibrium level of real GDP occurs when real net export spending equals zero.
B) The equilibrium level of real GDP occurs when planned real saving equals government spending.
C) The equilibrium level of real GDP occurs when total planned real expenditures equal real GDP.
D) The equilibrium level of real GDP occurs when planned real investment spending is zero.

Answer: C

Diff: 2

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

- 34) What effect would taxation have on real consumption spending when government spending is autonomous?
A) Taxation reduces real consumption spending.
B) Taxation increases real consumption spending.
C) Taxation causes both real consumption spending and planned real saving to increase.
D) None of the above is correct.

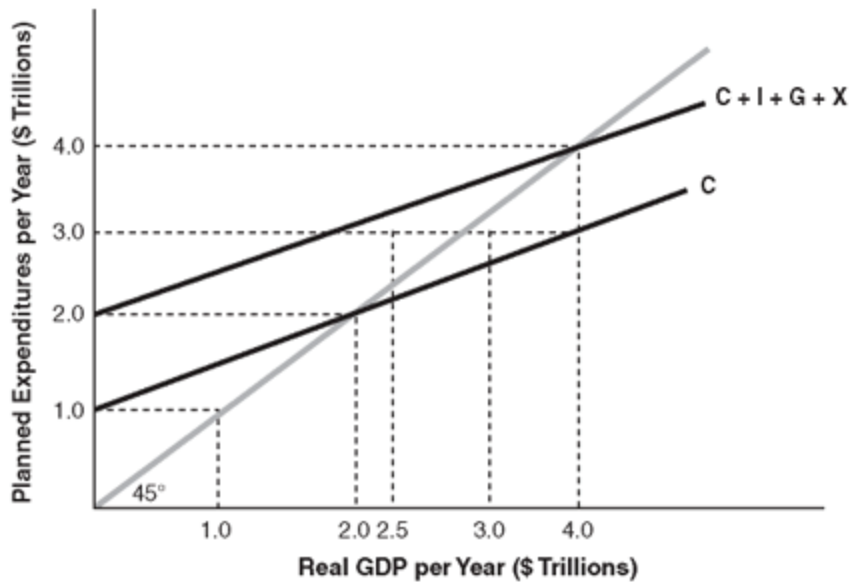
Answer: A

Diff: 2

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Revised



- 35) In the above figure, what is the equilibrium level of real GDP with government and the foreign sector?

A) \$2.0 trillion B) \$2.5 trillion C) \$3.0 trillion D) \$4.0 trillion

Answer: D

Diff: 1

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: New

- 36) In the above figure, at the equilibrium level of real GDP, there is

A) positive saving. B) negative saving.
C) zero saving. D) a negative tax rate.

Answer: A

Diff: 2

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Revised

- 37) In the above figure, if real GDP is \$1 trillion, there is

A) dissaving. B) positive saving.
C) negative investment. D) negative consumption.

Answer: A

Diff: 2

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: New

- 38) In the Keynesian model with government and the foreign sector added, what are the components of spending? Which of these components are autonomous and which are not? How is the equilibrium found? When the economy is not at an equilibrium, what adjustments are made?

Answer: There are four components to spending—consumption, investment, government, and net exports. The last three are autonomous and consumption has an autonomous part to it. However, consumption is also a function of income. Equilibrium is found at the point at which total planned real spending ($C + I + G + X$) exactly equals real Gross Domestic Product (GDP). When the economy is not at an equilibrium, adjustments are made by unplanned inventory changes.

Diff: 2

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

- 39) Explain how the aggregate demand curve is related to the $C + I + G + X$ curve.

Answer: The $C + I + G + X$ curve determines equilibrium real Gross Domestic Product (GDP) for a given price level. If the price level rises, people reduce consumption at every level of Gross Domestic Product (GDP) because their money balances are less valuable, investment spending falls because interest rates increase, and net exports fall because domestic goods are relatively more expensive. Hence, the $C + I + G + X$ curve shifts down, generating a lower real Gross Domestic Product (GDP). We have two price levels and two equilibrium levels of real Gross Domestic Product (GDP) and can derive the downward sloping aggregate demand curve.

Diff: 3

Topic: 12.5 Keynesian Equilibrium with Government and the Foreign Sector Added

AACSB: Analytic skills

Question Status: Previous Edition

12.6 The Multiplier

- 1) One divided by the marginal propensity to save (MPS) is the formula for
- A) one minus the multiplier.
 - B) the inverse of the multiplier.
 - C) the multiplier.
 - D) autonomous consumption.

Answer: C

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Revised

- 2) Suppose that the marginal propensity to save (MPS) equals 0.2. The value of the multiplier would be
- A) .8.
 - B) 1.25.
 - C) 2.
 - D) 5.

Answer: D

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Revised

- 3) Suppose that the marginal propensity to consume (MPC) is .75 and there is an increase in investment spending of \$100,000. As a result, equilibrium real Gross Domestic Product (GDP) would increase by

A) \$75,000. B) \$100,000. C) \$400,000. D) \$750,000.

Answer: C

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Revised

- 4) The larger is the marginal propensity to consume (MPC),
- A) the larger is the multiplier.
 - B) the smaller is the multiplier.
 - C) the smaller is the slope of the consumption function.
 - D) the larger is the slope of the saving function.

Answer: A

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Revised

- 5) If the marginal propensity to consume (MPC) decreases, then
- A) the marginal propensity to save (MPS) decreases.
 - B) the multiplier decreases.
 - C) the multiplier increases.
 - D) $MPC + MPS$ is less than 1.

Answer: B

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Revised

- 6) If the marginal propensity to consume (MPC) is 0.9, then the multiplier for a change in autonomous spending will be
- A) 0.1. B) 9. C) 10. D) 100.

Answer: C

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Revised

- 7) If the marginal propensity to save (MPS) increases, the multiplier
 A) decreases.
 B) increases.
 C) stays the same.
 D) can either increase or decrease, depending on what happens to the marginal propensity to consume (MPC).

Answer: A

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Revised

- 8) If the multiplier is 10 and income increases by \$100, then saving will increase by
 A) \$90. B) \$9. C) \$10. D) \$100.

Answer: C

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 9) If the multiplier is 10, then the marginal propensity to consume (MPC) is
 A) 0.9. B) 0.1. C) 1. D) 9.

Answer: A

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Revised

- 10) If the marginal propensity to consume (MPC) is 0.8, the multiplier will be
 A) 0.8. B) 1. C) 4. D) 5.

Answer: D

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 11) If the marginal propensity to save (MPS) is 0.1, the multiplier will be
 A) 0.1. B) 1. C) 5. D) 10.

Answer: D

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 12) If the multiplier in the economy is 3, the marginal propensity to save (MPS) must be
 A) 0.33. B) 0.67. C) 1. D) 3.

Answer: A

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 13) If the multiplier is 4, the marginal propensity to consume (MPC) must be
A) 0.25. B) 0.5. C) 0.75. D) 1.

Answer: C

Diff: 2

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 14) The multiplier effect tends to
A) generate instability.
B) promote stability of the general price level.
C) magnify small changes in spending into much larger changes in real Gross Domestic Product (GDP).
D) increase the MPC.

Answer: C

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 15) If an economy saves 20 percent of any increase in real Gross Domestic Product (GDP), then an increase in investment of \$2 billion can produce an increase in real Gross Domestic Product (GDP) of as much as
A) \$2 billion. B) \$10 billion. C) \$0.4 billion. D) \$1.6 billion.

Answer: B

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 16) If initial equilibrium real Gross Domestic Product (GDP) is \$400 billion, $MPC = 0.9$, and autonomous investment increases \$40 billion, equilibrium real Gross Domestic Product (GDP) will be
A) \$440 billion. B) \$360 billion. C) \$600 billion. D) \$800 billion.

Answer: D

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 17) Other things being constant, if the marginal propensity to save (MPS) is 0.1, and private investment spending falls by \$100 million, then real Gross Domestic Product (GDP)
A) decreases by \$10 million. B) increases by \$90 million.
C) decreases by \$1 billion. D) increases by \$1 billion.

Answer: C

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Revised

- 18) If an increase of \$5 billion in investment is associated with an increase of \$25 billion in real Gross Domestic Product (GDP), the multiplier is

A) 1. B) 3. C) 5. D) 7.

Answer: C

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 19) The multiplier helps explain

- A) why a rise in government expenditures causes real Gross Domestic Product (GDP) to rise by more than the amount of the increase in government spending.
- B) why an increase in disposable income causes real Gross Domestic Product (GDP) to rise by less than the amount of the increase in disposable income.
- C) why a decrease in taxes causes real Gross Domestic Product (GDP) to fall by more than the amount of the decrease in taxes.
- D) why a fall in investment cause real Gross Domestic Product (GDP) to rise by more than the amount of the decrease in investment.

Answer: A

Diff: 2

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 20) If the marginal propensity to consume (MPC) is 0.75 and government purchases increase by \$200 billion, then

- A) equilibrium real Gross Domestic Product (GDP) will increase by \$800 billion.
- B) equilibrium real Gross Domestic Product (GDP) will increase by \$200 billion.
- C) equilibrium real Gross Domestic Product (GDP) will increase by \$50 billion.
- D) the effect on equilibrium real Gross Domestic Product (GDP) cannot be determined from the given information.

Answer: A

Diff: 3

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Revised

- 21) If the marginal propensity to save (MPS) is 0.5 and net exports falls by \$100 million, then

- A) real Gross Domestic Product (GDP) will increase by \$100 million.
- B) real Gross Domestic Product (GDP) will fall by \$200 million.
- C) real Gross Domestic Product (GDP) will not change.
- D) the effect on real Gross Domestic Product (GDP) cannot be determined from the given information.

Answer: B

Diff: 3

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Revised

- 22) If autonomous investment increases by \$200 billion and the marginal propensity to consume (MPC) is 0.5, then

A) real Gross Domestic Product (GDP) will rise by \$400 billion.
B) real Gross Domestic Product (GDP) will rise by \$200 billion.
C) real Gross Domestic Product (GDP) will rise by \$100 billion.
D) real Gross Domestic Product (GDP) will decrease by \$100 billion.

Answer: A

Diff: 2

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Revised

- 23) A decrease in autonomous investment of \$100 that occurs when the marginal propensity to save (MPS) equals 0.25 will lead to a decrease in real Gross Domestic Product (GDP) of

A) \$25. B) \$100. C) \$400. D) \$800.

Answer: C

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Revised

- 24) Suppose the marginal propensity to consume (MPC) equals 0.80, an increase in autonomous investment of \$100 will lead to an increase in real Gross Domestic Product (GDP) by

A) \$100. B) \$400. C) \$500. D) \$800.

Answer: C

Diff: 2

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: New

- 25) If the MPS is one-third, a \$100 increase in net exports will

A) reduce real Gross Domestic Product (GDP) by \$100.
B) reduce real Gross Domestic Product (GDP) by \$300.
C) increase real Gross Domestic Product (GDP) by \$33.
D) increase real Gross Domestic Product (GDP) by \$300.

Answer: D

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 26) The multiplier is the ratio of the

A) change in the equilibrium level of real GDP to the change in autonomous expenditures.
B) equilibrium level of real GDP to the change in induced expenditures.
C) change in induced expenditures to the change in autonomous expenditures.
D) change in autonomous expenditures to the change in the equilibrium level of real GDP.

Answer: A

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 27) If the multiplier has a value of 10, then the value of the marginal propensity to save (MPS) is
A) 1.00. B) 0.90. C) 10.00. D) 0.10.

Answer: D

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 28) The multiplier is
A) the part of consumption that is independent of the level of disposable income.
B) the proportion of total disposable income that is consumed.
C) the percentage of a given change in income that goes towards consumption.
D) the number which is multiplied by an autonomous change which gives the change in the equilibrium level of real GDP.

Answer: D

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 29) The ratio of the change in the equilibrium level of real GDP to the change in autonomous real expenditures is the
A) average propensity to consume. B) marginal propensity to consume.
C) multiplier. D) unplanned investment.

Answer: C

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 30) A permanent reduction in planned real investment spending leads to
A) a more than proportional increase in real GDP.
B) a more than proportional decrease in real GDP.
C) a less than proportional decrease in real GDP.
D) a proportional decrease in real GDP.

Answer: B

Diff: 2

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 31) An increase in real net exports leads to an increase in real GDP. Further,
A) real consumption spending and real saving increase.
B) real consumption spending increases but real saving does not change.
C) real consumption spending increases while real investment spending decreases.
D) real government spending decreases to offset the increase in real net exports.

Answer: A

Diff: 2

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

32) The multiplier equals

- A) consumption/real disposable income.
- B) change in consumption/change in real disposable income.
- C) $1/\text{MPC}$.
- D) $1/(1 - \text{MPC})$.

Answer: D

Diff: 1

Topic: 12.6 The Multiplier

AACSB:

Question Status: Previous Edition

33) If the marginal propensity to consume (MPC) is 0.8, the spending multiplier will be

- A) 0.2.
- B) 1.25.
- C) 4.0.
- D) 5.0.

Answer: D

Diff: 2

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Revised

34) If the marginal propensity to consume (MPC) is 0.9, the spending multiplier will be

- A) 10.
- B) 1.11.
- C) 0.9.
- D) 0.1.

Answer: A

Diff: 2

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Revised

35) If the marginal propensity to consume (MPC) is 0.75 and there is an increase in planned investment spending of \$0.5 trillion, then saving will

- A) increase by \$0.25 trillion.
- B) increase by \$0.5 trillion.
- C) increase by \$1 trillion.
- D) remain unchanged.

Answer: B

Diff: 3

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

36) Suppose the marginal propensity to consume (MPC) is 0.8 and there is a \$2,000 increase in autonomous consumption. Given this information, real GDP will increase by

- A) \$1,600.
- B) \$2,000.
- C) \$2,500.
- D) \$10,000.

Answer: D

Diff: 3

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Revised

- 37) Suppose marginal propensity to consume (MPC) is 0.7 and there is a \$1,000 increase in autonomous consumption. Given this information, real GDP will increase by

A) \$3,333. B) \$1,429. C) \$1,000. D) \$700.

Answer: A

Diff: 3

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Revised

- 38) Suppose the marginal propensity to consume (MPC) is 0.9 and there is a \$3,000 increase in planned investment. Given this information, real GDP will increase by

A) \$3,000. B) \$2,700. C) \$30,000. D) \$3,333.

Answer: C

Diff: 3

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Revised

- 39) Suppose the marginal propensity to consume (MPC) is 0.8 and there is a \$4,000 increase in planned investment. Given this information, real GDP will increase by

A) \$4,000. B) \$20,000. C) \$5,000. D) \$2,000.

Answer: B

Diff: 3

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Revised

- 40) The larger the marginal propensity to consume,

A) the larger the marginal propensity to save is.
B) the larger the multiplier is.
C) the smaller the multiplier is.
D) the smaller autonomous consumption is.

Answer: B

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Revised

- 41) If the marginal propensity to consume (MPC) is 0.8 and there is a desire to increase real GDP by \$500 billion, then

A) an increase in autonomous real consumption spending of \$500 billion will generate this change.
B) a decrease in autonomous real saving of \$500 billion will generate this change.
C) an increase in planned real investment spending of \$200 billion will generate this change.
D) an increase in real autonomous spending of \$100 billion will generate this change.

Answer: D

Diff: 3

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 42) The multiplier tells us the relationship between
- A) the interest rate and the level of investment expenditure.
 - B) the exchange rate and the level of exports.
 - C) the exchange rate and the level of imports.
 - D) a change in autonomous spending and the resulting change in equilibrium real GDP.

Answer: D

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 43) The multiplier effect applies to any
- A) change in autonomous investment but not autonomous consumption.
 - B) change in autonomous consumption but not autonomous investment.
 - C) change in both autonomous consumption and autonomous investment.
 - D) change in any source of spending other than consumption and investment.

Answer: C

Diff: 2

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 44) The larger the value of the marginal propensity to save (MPS),
- A) the larger is the value of the multiplier.
 - B) the larger is the value of the marginal propensity to consumption (MPC).
 - C) the larger is the value of autonomous consumption.
 - D) the smaller is the value of the multiplier.

Answer: D

Diff: 2

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Revised

- 45) If the $MPC = 0.8$, and planned autonomous investment increases by \$80 billion, then equilibrium real GDP will increase by
- A) \$64 billion.
 - B) \$80 billion.
 - C) \$320 billion.
 - D) \$400 billion.

Answer: D

Diff: 2

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 46) If the MPC is 0.75, the multiplier is equal to
- A) 0.25.
 - B) $0.75/0.25 = 3$.
 - C) 4.
 - D) 5.

Answer: C

Diff: 2

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 47) The size of the multiplier depends on
- A) the level of autonomous investment.
 - B) the marginal propensity to consume.
 - C) the level of net exports.
 - D) the level of autonomous consumption.

Answer: B

Diff: 2

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 48) If the marginal propensity to consume (MPC) is 0.75, what is the value of the multiplier?
- A) 4.0
 - B) 3.0
 - C) 2.0
 - D) 1.0

Answer: A

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 49) An increase in the marginal propensity to save (MPS)
- A) increases the value of the multiplier.
 - B) increases autonomous consumption.
 - C) increases the marginal propensity to consume (MPC).
 - D) none of the above.

Answer: D

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 50) When the marginal propensity to consume (MPC) increases,
- A) the multiplier remains unchanged.
 - B) the multiplier increases.
 - C) the multiplier decreases.
 - D) the average propensity to save remains unchanged.

Answer: B

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 51) If the marginal propensity to consume (MPC) is 0.8, the multiplier is
- A) 5.0.
 - B) 1.2.
 - C) 0.2.
 - D) 0.8.

Answer: A

Diff: 2

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 52) Suppose government spending decreases by \$100 billion and the marginal propensity to consume (MPC) is 0.8. Given this information, this decrease in government spending will cause a(n)
- A) increase in equilibrium real GDP equal to \$500 billion.
 - B) increase in equilibrium real GDP equal to \$800 billion.
 - C) increase in equilibrium real GDP equal to \$500 billion.
 - D) decrease in equilibrium real GDP equal to \$800 billion.

Answer: C

Diff: 2

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 53) Suppose there is a \$200 billion increase in government spending. We know that this increase in government spending will cause which of the following to occur?
- A) an increase in equilibrium real GDP and an increase in the multiplier.
 - B) an increase in equilibrium real GDP and a reduction in the multiplier.
 - C) an increase in equilibrium real GDP and no change in the multiplier.
 - D) equilibrium real GDP will increase by exactly \$200 billion

Answer: C

Diff: 2

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 54) If that the marginal propensity to save (MPS) increased from 0.20 to 0.25, this would cause the multiplier effect to
- A) decrease.
 - B) increase.
 - C) stay the same.
 - D) None of the above is correct.

Answer: A

Diff: 2

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

- 55) A permanent reduction in net exports leads to
- A) a more than proportional decrease in real Gross Domestic Product (GDP).
 - B) a less than proportional decrease in real Gross Domestic Product (GDP).
 - C) a proportional increase in real Gross Domestic Product (GDP).
 - D) a reduction in taxes, autonomous government spending, and a fall in real Gross Domestic Product (GDP).

Answer: A

Diff: 1

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

56) What is the significance of the multiplier? What causes the multiplier to be larger or smaller?

Answer: The multiplier is important because it means that a relatively small change in autonomous spending, such as investment spending or net exports, can have a much larger effect on total spending and real Gross Domestic Product (GDP). The greater the marginal propensity to consume (MPC), the greater the multiplier because more of a given increase in income is spent, raising the income of other people by more.

Diff: 2

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

57) What is the multiplier? How is it calculated? Why is the multiplier related only to consumption spending?

Answer: The multiplier is the number by which a permanent change in autonomous spending is multiplied to get the change in the equilibrium level of real GDP. It is equal to $1/(1 - \text{MPC})$. An increase in income leads to an increase in consumption spending. But the spending increases the income of someone else. This increase in income causes their consumption spending to increase, which is income for someone else, and so on. Since consumption spending is the only component of spending that depends on income, it is the only component used in calculating the multiplier.

Diff: 3

Topic: 12.6 The Multiplier

AACSB: Analytic skills

Question Status: Previous Edition

12.7 How a Change in Real Autonomous Spending Affects Real GDP When the Price Level Can Change

1) If the aggregate supply curve is upward sloping, then an increase in autonomous consumption leads to a(n)

- A) increase in aggregate demand and a rise in the price level.
- B) decrease in aggregate demand and a rise in the price level.
- C) decrease in aggregate demand and a fall in the price level.
- D) no change in aggregate demand and no change in the price level.

Answer: A

Diff: 1

Topic: 12.7 How a Change in Real Autonomous Spending Affects Real GDP When the Price Level Can Change

AACSB: Analytic skills

Question Status: Previous Edition

2) When the SRAS curve slopes upward, the actual affect of an increase in real autonomous spending on equilibrium real GDP is smaller than predicted by the multiplier because

- A) the price level falls.
- B) the price level rises
- C) real GDP increases.
- D) real GDP decreases.

Answer: B

Diff: 1

Topic: 12.7 How a Change in Real Autonomous Spending Affects Real GDP When the Price Level Can Change

AACSB: Analytic skills

Question Status: Previous Edition

- 3) Because a decrease in real autonomous spending results in a _____ in the price level, the ultimate effect on real GDP is _____ that predicted by the multiplier.
- A) fall; smaller B) fall; larger C) rise; smaller D) fall, smaller

Answer: A

Diff: 1

Topic: 12.7 How a Change in Real Autonomous Spending Affects Real GDP When the Price Level Can Change

AACSB: Analytic skills

Question Status: Previous Edition

- 4) When the equilibrium price level adjusts to an increase in autonomous investment spending, the impact of the multiplier effect resulting from that spending increase
- A) will increase real GDP by an amount smaller than the multiplier effect would indicate.
 B) will increase nominal GDP by an amount smaller than the multiplier effect would indicate.
 C) will have no impact on the real GDP.
 D) is only felt when there are changes in consumption.

Answer: A

Diff: 3

Topic: 12.7 How a Change in Real Autonomous Spending Affects Real GDP When the Price Level Can Change

AACSB: Analytic skills

Question Status: Previous Edition

- 5) Suppose that aggregate demand increases along the upward sloping portion of the aggregate supply curve. What is the result?
- A) Nominal GDP and real GDP decrease by the same amount.
 B) Nominal GDP and real GDP increase by the same amount.
 C) Nominal GDP increases more than real GDP increases.
 D) Real GDP increases more than nominal GDP increases.

Answer: C

Diff: 3

Topic: 12.7 How a Change in Real Autonomous Spending Affects Real GDP When the Price Level Can Change

AACSB: Analytic skills

Question Status: Previous Edition

12.8 The Relationship Between Aggregate Demand and the $C + I + G + X$ Curve

- 1) Which of the following is a true statement?
- A) The $C + I + G + X$ curve has no relationship to the aggregate demand curve other than some of the variables that affect one curve also affect the other.
 B) The $C + I + G + X$ curve is used to derive the aggregate demand curve, but the $C + I + G + X$ curve is drawn for one price level while price levels vary along the aggregate demand curve.
 C) The $C + I + G + X$ curve is used to derive the aggregate demand curve, but the aggregate demand curve is drawn for one price level.
 D) Both the $C + I + G + X$ curve and the aggregate demand curve are drawn for one price level.

Answer: B

Diff: 2

Topic: 12.8 The Relationship Between Aggregate Demand and the $C + I + G + X$ Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 2) A higher price level causes
- A) the aggregate demand curve to shift to the left.
 - B) the aggregate demand curve to shift to the right.
 - C) the $C + I + G + X$ curve to shift down.
 - D) the $C + I + G + X$ curve to shift up.

Answer: C

Diff: 2

Topic: 12.8 The Relationship Between Aggregate Demand and the $C + I + G + X$ Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 3) A lower price level causes the $C + I + G + X$ curve to shift as a result of a change in all the following EXCEPT
- A) an increase in real wealth.
 - B) a decrease in interest rates.
 - C) an increase in aggregate supply.
 - D) an increase in foreign spending on domestic goods.

Answer: C

Diff: 2

Topic: 12.8 The Relationship Between Aggregate Demand and the $C + I + G + X$ Curve

AACSB: Analytic skills

Question Status: New

- 4) A rise in the price level causes
- A) an increase in aggregate demand.
 - B) a decrease in aggregate demand.
 - C) a reduction in total planned real expenditures.
 - D) an increase in total planned real expenditures.

Answer: C

Diff: 1

Topic: 12.8 The Relationship Between Aggregate Demand and the $C + I + G + X$ Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 5) An increase in planned real investment spending causes
- A) a movement along the $C + I + G + X$ curve and a shift of the aggregate demand curve.
 - B) a shift of the $C + I + G + X$ curve and a movement along the aggregate demand curve.
 - C) a shift of the $C + I + G + X$ curve but has no effect on the aggregate demand curve.
 - D) a shift of the $C + I + G + X$ curve that causes the aggregate demand curve to shift.

Answer: D

Diff: 2

Topic: 12.8 The Relationship Between Aggregate Demand and the $C + I + G + X$ Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 6) An increase in the price level causes
- A) reduced investment spending, because interest rates increase, but an increase in net exports as U.S. residents buy fewer imports. The change in investment is usually greater than the change in net exports.
 - B) a reduction in net exports as higher priced U.S. goods induce foreigners to buy fewer American products, and an increase in investment spending as the higher prices make businesses more profitable.
 - C) reduced investment spending, because interest rates increase and a decrease in net exports as the higher prices induce foreigners to buy fewer U.S. goods.
 - D) increased government spending, which crowds out investment spending, so that the net effect on aggregate demand is nil.

Answer: C

Diff: 3

Topic: 12.8 The Relationship Between Aggregate Demand and the $C + I + G + X$ Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 7) If society wants aggregate demand to increase without changes in the price level, then there must be
- A) a gap between full employment and the current level of real GDP and an increase in autonomous spending.
 - B) an increase in autonomous spending combined with an increase in the marginal propensity to save.
 - C) an increase in autonomous saving so that autonomous investment spending can increase.
 - D) an increase in autonomous spending and a horizontal short-run aggregate supply curve.

Answer: D

Diff: 3

Topic: 12.8 The Relationship Between Aggregate Demand and the $C + I + G + X$ Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 8) How does a reduction in the price level affect the position of the $C + I + G + X$ curve and in turn the equilibrium level of real GDP?
- A) The $C + I + G + X$ curve shifts down, thereby reducing the equilibrium level of real GDP.
 - B) The $C + I + G + X$ curve shifts down, thereby increasing the equilibrium level of real GDP.
 - C) The $C + I + G + X$ curve shifts up, thereby reducing the equilibrium level of real GDP.
 - D) The $C + I + G + X$ curve shifts up, thereby increasing the equilibrium level of real GDP.

Answer: D

Diff: 2

Topic: 12.8 The Relationship Between Aggregate Demand and the $C + I + G + X$ Curve

AACSB: Analytic skills

Question Status: Previous Edition

- 9) How does an increase in the price level affect the position of the $C + I + G + X$ curve and in turn the equilibrium level of real GDP?
- A) The $C + I + G + X$ curve shifts down, thereby reducing the equilibrium level of real GDP.
 - B) The $C + I + G + X$ curve shifts down, thereby increasing the equilibrium level of real GDP.
 - C) The $C + I + G + X$ curve shifts up, thereby reducing the equilibrium level of real GDP.
 - D) The $C + I + G + X$ curve shifts up, thereby increasing the equilibrium level of real GDP.

Answer: A

Diff: 2

Topic: 12.8 The Relationship Between Aggregate Demand and the $C + I + G + X$ Curve

AACSB: Analytic skills

Question Status: Previous Edition

12.9 Appendix C: The Keynesian Model and the Multiplier

- 1) According to the Keynesian model, an increase in autonomous investment leads to
- A) a more than proportional decrease in real Gross Domestic Product (GDP).
 - B) a less than proportional decrease in real Gross Domestic Product (GDP).
 - C) a proportional increase in real Gross Domestic Product (GDP).
 - D) a reduction in taxes, autonomous government spending, and a fall in real Gross Domestic Product (GDP).

Answer: A

Diff: 1

Topic: 12.9 Appendix C: The Keynesian Model and the Multiplier

AACSB: Analytic skills

Question Status: New

- 2) In the Keynesian model, a decrease in real autonomous spending results in a more than proportional decrease in real Gross Domestic Product (GDP) because
- A) consumption decreases as a result of lower real disposable income.
 - B) consumption increases while real disposable income decreases.
 - C) real autonomous spending decreases further as real disposable income decreases.
 - D) government spending also decreases.

Answer: A

Diff: 2

Topic: 12.9 Appendix C: The Keynesian Model and the Multiplier

AACSB: Analytic skills

Question Status: New

- 3) In the Keynesian model, an increase in real autonomous spending results in a greater increase in real Gross Domestic Product (GDP) if
- A) the marginal propensity to consume (MPC) is lower.
 - B) the marginal propensity to consume (MPC) is higher.
 - C) the average propensity to save (APS) is higher.
 - D) the average propensity to save (APS) is lower.

Answer: B

Diff: 2

Topic: 12.9 Appendix C: The Keynesian Model and the Multiplier

AACSB: Analytic skills

Question Status: New

- 4) Suppose the economy is initially at equilibrium, in which total planned real expenditures equals real GDP. Which of the following will occur if there is an increase in autonomous investment?
- A) Inventories will increase immediately and production of goods and services will decrease until real GDP catches up with total planned real expenditures.
 - B) Inventories will decrease immediately and production of goods and services will increase until real GDP catches up with total planned real expenditures.
 - C) Both inventories and production of goods and services will increase.
 - D) Inventories will not change and production of goods and services will not change either.

Answer: B

Diff: 2

Topic: 12.9 Appendix C: The Keynesian Model and the Multiplier

AACSB: Analytic skills

Question Status: New