Principles of Economics 1st Edition Asarta Test Bank
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Aggregate Expenditures Model

1. The most basic premise of the aggregate expenditures model is that the

   A. total output produced in the economy depends directly on the level of total spending.

   B. level of employment in the economy depends inversely on the real wage rate.

   C. total output produced depends mostly on the total capacity of firms to produce.

   D. unemployment level in the economy is inversely related to the inflation rate.

2. One basic assumption of the aggregate expenditures model is that

   A. the economy is operating at full employment.

   B. there is inflation in the economy.

   C. there is no public sector in the economy.

   D. the average price level in the economy is fixed.

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3. John Maynard Keynes developed the aggregate expenditures model in order to understand the

A. Second World War.

B. Great Depression.

C. oil crises of the 1970s and 1980s.

D. Great Recession of 2007-2009.

4. In a private closed economy, the components of aggregate expenditures are

A. consumption and government spending.

B. consumption and net exports.

C. consumption, investment, and net exports.

D. consumption and investment.

5. John Maynard Keynes created the aggregate expenditures model based primarily on what historical event?

A.
bank panic of 1907

B.
the Great Depression

C.
spectacular economic growth during World War II

D.
economic expansion of the 1920s

6. The aggregate expenditures model is built upon which of the following assumptions?

A. Prices are fixed.

B. The economy is at full employment.

C. Prices are fully flexible.

D. Government spending policy has no ability to affect the level of output.

7. Personal saving is equal to

A. disposable income plus consumption.

B. consumption minus disposable income.

C. disposable income minus consumption.

D. consumption divided by disposable income.

8. As disposable income decreases, consumption

   A. and saving both increase.

   B. and saving both decrease.

   C. increases and saving decreases.

   D. decreases and saving increases.

9. The MPC can be defined as the

   A. change in consumption divided by the change in income.

   B. change in income divided by the change in consumption.

   C. ratio of income to saving.

   D. ratio of saving to consumption.

10. An MPC value of less than 1.0 indicates that as income increases consumption

    A. also increases, and by more than the increase in income.

    B. also increases, and at the same rate as the increase in income.

    C. will go in the opposite direction and decrease.

    D. also increases, though not as much as income.

11. If a family's MPC is 0.7, it means that the family is

    A. operating at the break-even point.
    B. spending seven-tenths of any increment to its income.
    C. necessarily dissaving.
    D. spending 70% of its disposable income.

12. Assume that an increase in a household's disposable income from $40,000 to $48,000 leads to an increase in consumption from $35,000 to $41,000, then the

    A. marginal propensity to consume is 0.75.
    B. average propensity to consume is 0.75.
    C. marginal propensity to save is 0.20.
    D. marginal propensity to consume is 0.6.

13. If Matt's disposable income increases from $4,000 to $4,500 and his level of saving increases from $200 to $325, it may be concluded that his marginal propensity to:

    A. consume is .80.
    B. consume is .75.
    C. consume is .60.
    D. save is .30.

14. If disposable income increases from $912 to $927 billion and MPC = 0.6, then consumption will increase by

    A. $6 billion.
    B. $9 billion.
    C. $54 billion.
    D. $56 billion.

15. If disposable income decreases from $1800 to $1500 and MPC = 0.75, then saving will

    A. increase by $225.
    B. decrease by $225.
    C. increase by $75.
    D. decrease by $75.

16. The relationship between the MPS and the MPC is such that

    A. MPC - MPS = 1.
    B. MPS/MPC = 1.
    C. 1 - MPC = MPS.
    D.
    MPC - 1 = MPS.

17. When the marginal propensity to consume is less than 1, the

    A. average propensity to consume is greater than 1.
    B. average propensity to save is greater than 1.
    C. marginal propensity to save is negative.
    D. marginal propensity to save is positive.

18. With an MPS of 0.3, the MPC will be

    A. 1 - 0.3.
    B. 0.3 - 1.
    C. 1/0.3.
    D. 0.3.

19. In a private closed economy, national income is $4.5 trillion and savings equals $6.4 billion. Based on this data, the marginal propensity to consume

    A. decreases as income increases.
    B. is greater than the marginal propensity to save.
    C. is less than the average propensity to consume.
    D. cannot be calculated from the data given.

20.

Use the following data to answer the next question.

The disposable income (DI) and consumption (C) schedules are for a private, closed economy. All figures are in billions of dollars.

Disposable Income	Consumption
$300	$310
350	340
400	370
450	400
500	430

The marginal propensity to consume is

A. .80.

B. .75.

C. .60.

D. .40.

21.

Use the following data to answer the next question.

The disposable income (DI) and consumption (C) schedules are for a private, closed economy. All figures are in billions of dollars.

Disposable Income	Consumption
$300	$310
350	340
400	370
450	400
500	430

If disposable income is $550, we would expect consumption to be

A. $430.

B. $450.

C. $460.

D. $470.

22.

Use the following data to answer the next question.

The disposable income (DI) and consumption (C) schedules are for a private, closed economy. All figures are in billions of dollars.

Disposable Income	Consumption
$ 0	$ 8
80	80
160	152
240	224
320	296
400	368

The marginal propensity to save in this economy is

A. .1.

B. .72.

C. .8.

D. .9.

23.

Use the following data to answer the next question.

The disposable income (DI) and consumption (C) schedules are for a private, closed economy. All figures are in billions of dollars.

Disposable Income	Consumption
$10,000	$12,000
18,000	18,000
26,000	24,000
34,000	30,000
42,000	36,000
50,000	42,000

If disposable income is $42,000, then saving is

A. $0.

B. $2,000.

C. $4,000.

D. $6,000.

24.

Use the following data to answer the next question.

The disposable income (DI) and consumption (C) schedules are for a private, closed economy. All figures are in billions of dollars.

Disposable Income	Consumption
$10,000	$12,000
18,000	18,000
26,000	24,000
34,000	30,000
42,000	36,000
50,000	42,000

The marginal propensity to consume is

A. .60.

B. .75.

C. .80.

D. .20.

25. The fraction, or percentage, of total income that is consumed is called the

A. break-even income.

B. consumption schedule.

C. marginal propensity to consume.

D. average propensity to consume.

26. If disposable income is $900 billion when the average propensity to consume is 0.9, it can be concluded that

A. the marginal propensity to consume is also 0.9.

B. the marginal propensity to save is 0.1.

C. consumption is $900 billion.

D. saving is $90 billion.

27.

Use the following data to answer the next question.

The disposable income (DI) and consumption (C) schedules are for a private, closed economy. All figures are in billions of dollars.

Disposable Income	Consumption
$ 0	$ 8
80	80
160	152
240	224
320	296
400	368

At the $320 billion level of disposable income, the average propensity to save is

A. .015.

B. .075.

C. .335.

D. .925.

28.

Use the following data to answer the next question.

The disposable income (DI) and consumption (C) schedules are for a private, closed economy. All figures are in billions of dollars.

Disposable Income	Consumption
$ 0	$ 8
80	80
160	152
240	224
320	296
400	368

If consumption increases by $10 billion at each level of disposable income, the marginal propensity to consume will

A. change, but the average propensity to consume will *not* change.

B. change, and the average propensity to consume will change.

C. *not* change, but the average propensity to consume will change.

D. *not* change, and the average propensity to consume will *not* change.

29. The amount of consumption in an economy correlates

A. inversely with the level of disposable income.

B. directly with the level of disposable income.

C. directly with the level of saving.

D. directly with the rate of interest.

30. The consumption schedule shows the relationship of household consumption to the level of

A. saving.

B. investment.

C. disposable income.

D. the marginal propensity to consume.

31. When a consumption schedule is plotted as a straight line, the slope of the consumption line is

A. vertical.

B. horizontal.

C. greater than the slope of the 45º line.

D. less than the slope of the 45º line.

32. When the consumption schedule is plotted on a graph, consumption is on the

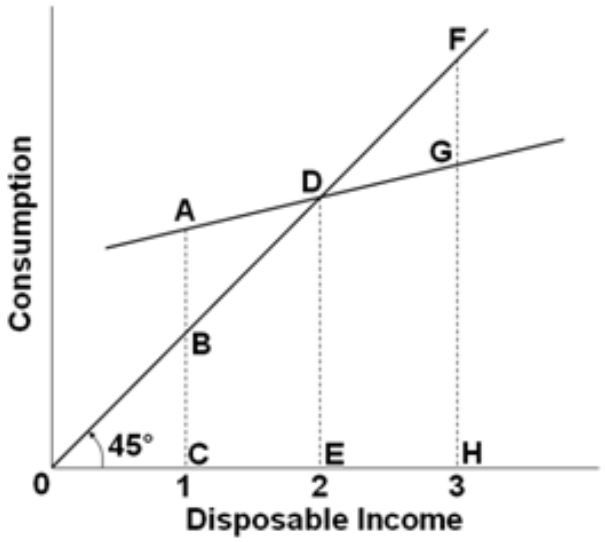
A. horizontal axis and saving is on the vertical axis.

B. vertical axis and saving is on the horizontal axis.

C. horizontal axis and disposable income is on the vertical axis.

D. vertical axis and disposable income is on the horizontal axis.

33. Use the following consumption schedule to answer the next question.



At income level 3, the amount of consumption is represented by the line segment

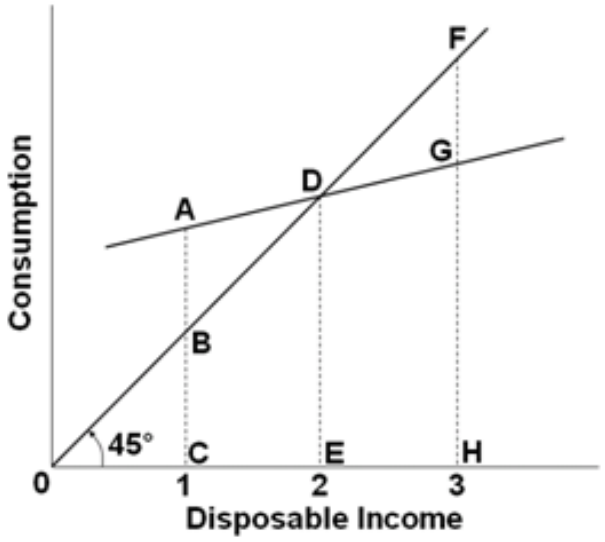
A. FG.

B. FH.

C. FD.

D. GH.

34. Use the following consumption schedule to answer the next question.



Disposable income equals consumption at point

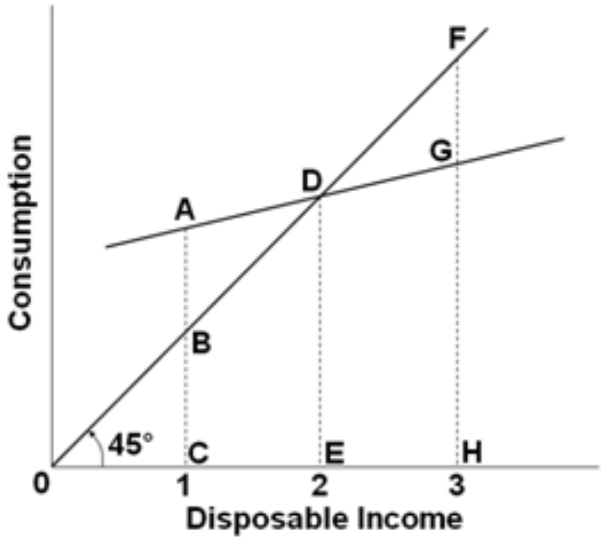
A. A.

B. C.

C. D.

D. G.

35. Use the following consumption schedule to answer the next question.



The break-even level of income would be at income level

A. 0.

B. 1.

C. 2.

D. 3.

36. An increase in disposable income

A. increases consumption because it shifts the consumption schedule upward.

B. decreases consumption because it shifts the consumption schedule downward.

C. increases consumption by moving upward along a given consumption schedule.

D. decreases consumption by moving downward along a given consumption schedule.

37. The slope of the consumption schedule between two points on the schedule is

A. the ratio of the change in consumption to the change in disposable income between those two points.
B. the ratio of the change in disposable income over the change in consumption between those two points.
C. equivalent to one plus the marginal propensity to save.
D. equivalent to the average propensity to consume.

38. If the consumption schedule is a straight line, it can be concluded that the

A. APC is necessarily constant.
B. MPC is zero.
C. MPC is constant at various levels of income.
D. APC is equal to the MPC.

39. What is the slope of the consumption schedule or consumption line for a given economy?

A. APC
B. APS
C. 1 - MPC
D. 1 - MPS

40. If the slope of a linear consumption schedule increases in a private closed economy, then it can be concluded that the

A. MPS has increased.

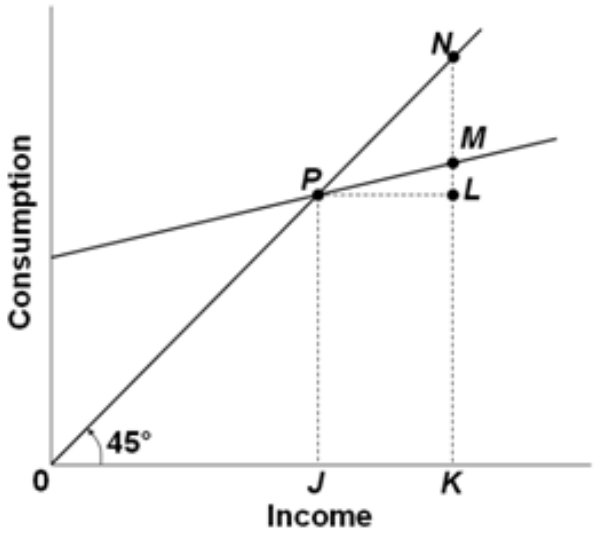
B. MPC has increased.

C. income has increased.

D. income has decreased.

41.

Use the following consumption schedule to answer the next question.



The graph above shows the relationship between consumption and income. The ratio LM/PL would be a measure of the

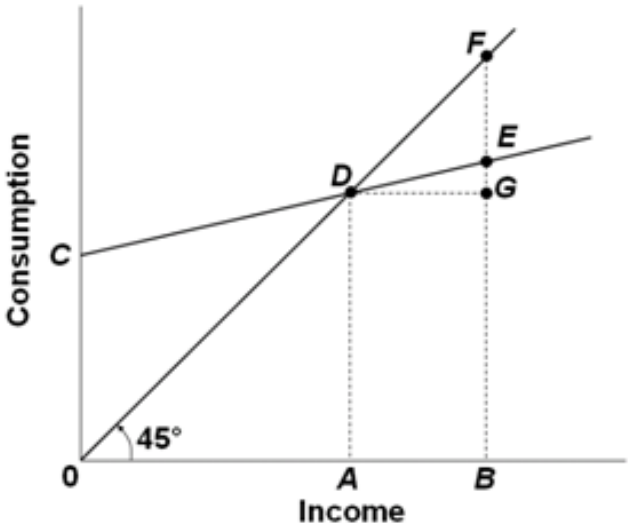
A. marginal propensity to consume.

B. marginal propensity to save.

C. average propensity to consume.

D. average propensity to save.

42. Use the following consumption schedule to answer the next question.



The marginal propensity to consume is represented by

A.
GF/BE.

B.
EF/BE.

C.
GE/AB.

D.
DE/AB.

43. Which of the following may shift the consumption schedule upward?

A. An increase in disposable income.

B. A decrease in interest rates.

C. A significant decrease in stock prices.

D. A decrease in people's ability to borrow.

44. Which of the following would shift the consumption schedule downward?

A. A decrease in real interest rates.

B. An increase in the value of financial assets.

C. An increase in the probability of a recession.

D. A decrease in disposable income.

45. When consumers decide to increase household debt, this action will

A. shift the consumption schedule upward.

B. shift the consumption schedule downward.

C. increase the amount consumed along a stable consumption schedule.

D. decrease the amount consumed along a stable consumption schedule.

46. A lower real interest rate typically induces consumers to

A. save more.

B. buy fewer imported goods.

C. purchase more goods that are bought using credit.

D. purchase fewer goods that are bought without using credit.

47. In an economy, for every $10 million increase in disposable income, saving increases by $2 million. It can be concluded that the

A. slope of the saving schedule is 2.

B. slope of the consumption schedule is .8.

C. marginal propensity to consume is .2.

D. average propensity to save is 0.2.

48. The saving schedule shows the relationship of saving of households to the level of

A. consumption.

B. investment.

C. disposable income.

D. the average propensity to save.

49. If households consume less at each level of disposable income, they are

A. saving more.

B. saving less.

C. spending more.

D. working less.

50. Dissaving occurs when

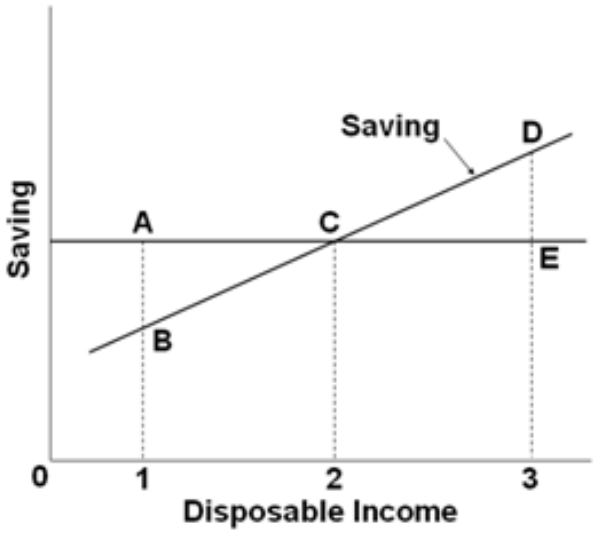
A. income is greater than saving.

B. income is less than consumption.

C. saving is greater than consumption.

D. saving is greater than the interest rate.

51. Use the following saving schedule to answer the next question.



Dissaving occurs when disposable income is

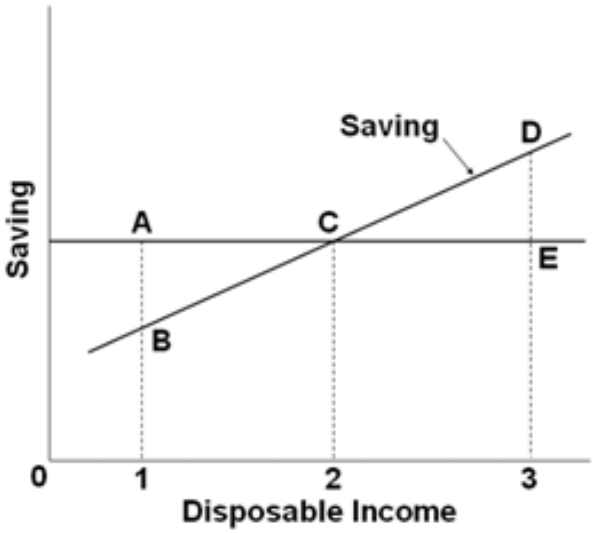
A. equal to level 2.

B. less than level 2.

C. greater than level 2.

D. equal to level 3.

52. Use the following saving schedule to answer the next question.



The break-even income would be level

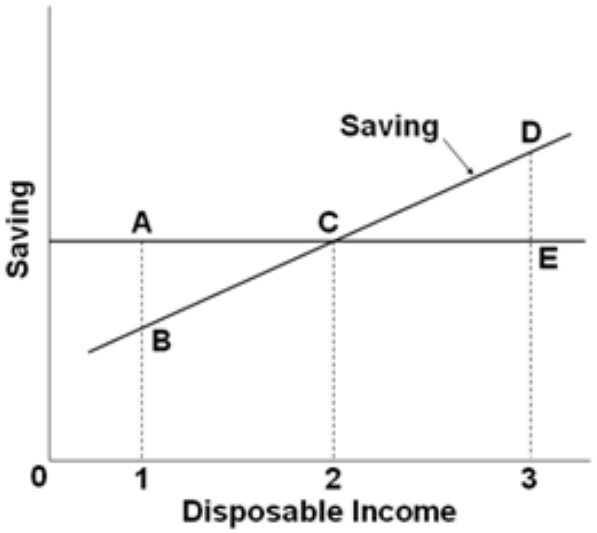
A. 0.

B. 1.

C. 2.

D. 3.

53. Use the following saving schedule to answer the next question.



As income falls from level 3 to level 2, the amount of

A. dissaving decreases.

B. dissaving increases.

C. saving decreases.

D. saving increases.

54. If the slope of the consumption schedule is 0.75, then the slope of the saving schedule is

A. 0.25.

B. 0.75.

C. 1.25.

D. not possible to determine from the data.

55. An increase in household wealth that creates a wealth effect would shift the consumption schedule

A. and the saving schedule upward.

B. and the saving schedule downward.

C. upward and the saving schedule downward.

D. downward and the saving schedule upward.

56. The so-called wealth effect will result in households spending

A. more and saving less.

B. less and saving more.

C. less and saving less.

D. more and saving more.

57. Which of the following would shift the saving schedule upward?

A. A decrease in wealth.

B. A decrease in real interest rates.

C. Consumer expectations of rising prices of products.

D. Increased optimism about future incomes.

58. The saving schedule would be shifted upward by

A. an increase in the value real and financial assets.

B. a reduction in real interest rates.

C. expectations of rising prices of products.

D. a decrease in taxes.

59. If consumers expect prices to rise and shortages to occur in the future, then there will be a shift

A. upward of both the consumption and saving schedules.

B. downward of both the consumption and saving schedules.

C. of the consumption schedule upward and of the saving schedule downward.

D. of the consumption schedule downward and the saving schedule upward.

60. As the consumption and saving schedules relate to real GDP, an increase in taxes will shift

A. upward both the consumption and saving schedules.

B. downward both the consumption and saving schedules.

C. the consumption schedule upward and the saving schedule downward.

D. the saving schedule upward and the consumption schedule downward.

61. A change in interest rates would shift the consumption schedule and the saving schedule _____; a change in taxes would shift these two schedules _____.

A. in the same direction; also in the same direction

B. in the same direction; in opposite directions

C. in opposite directions; also in opposite directions

D. in opposite directions; in the same direction

62. A change in the amount saved due to a change in income is represented by a

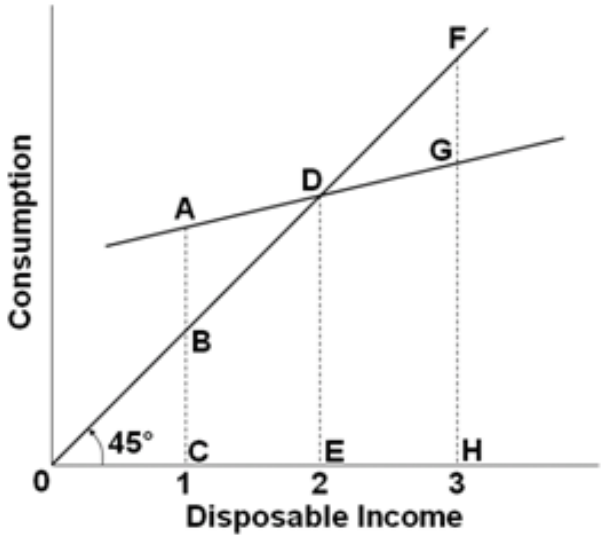
A. shift of the entire saving schedule.

B. movement along the saving schedule.

C. change in the marginal propensity to save.

D. change in the marginal propensity to consume.

63. Use the following consumption schedule to answer the next question.



At income level 3, the amount of saving is represented by the line segment

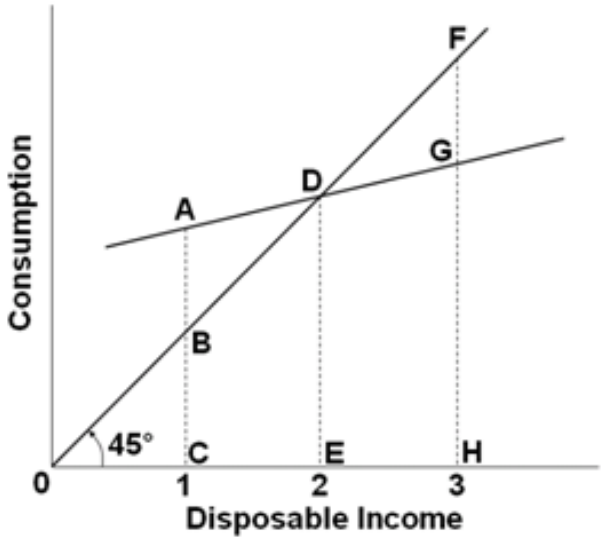
A. FG.

B. FH.

C. FD.

D. GH.

64. Use the following consumption schedule to answer the next question.



At income level 1, the amount of saving is

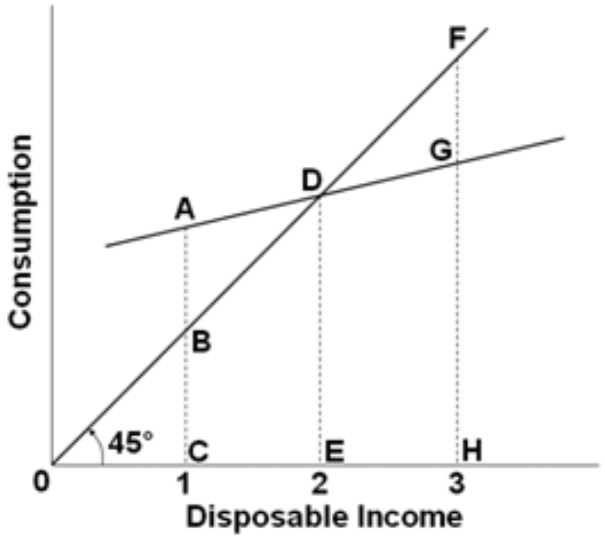
A. positive.

B. negative.

C. zero.

D. not measurable.

65. Use the following consumption schedule to answer the next question.



As income falls from level 3 to level 2, the amount of consumption

A. increases and the amount of dissaving increases.

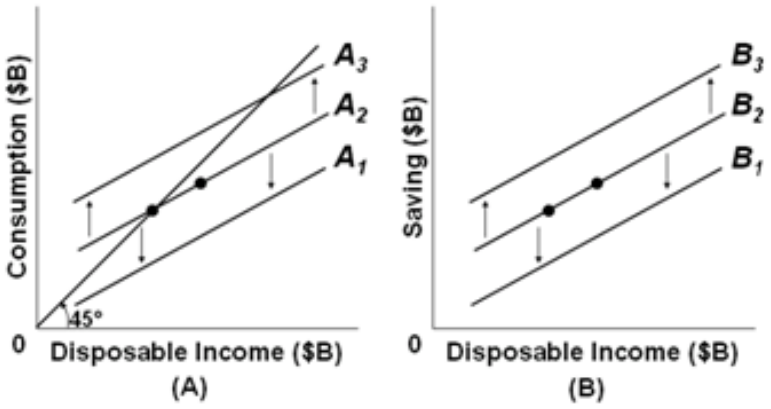
B. decreases and the amount of dissaving decreases.

C. decreases and the amount of saving decreases.

D. decreases and the amount of saving increases.

66.

Use the following figures to answer the next question.



Refer to the above figures with consumption schedules in figure (A) and saving schedules in figure (B), which correspond to each other across different levels of disposable income. If, in figure (A), line A_2 shifts to A_3 because of the so-called wealth effect, then in figure (B) line

A.

B_2 will shift to B_3.

B.

B_1 will shift to B_2.

C.

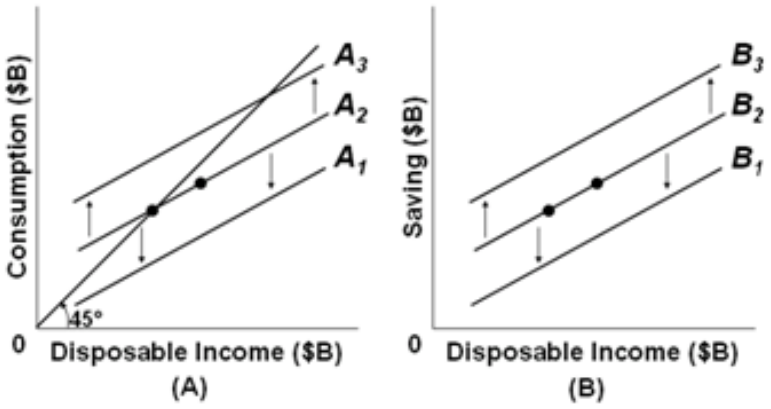
B_2 will shift to B_1.

D.

B_3 will shift to B_2.

67.

Use the following figures to answer the next question.



Refer to the above figures with consumption schedules in figure (A) and saving schedules in figure (B), which correspond to each other across different levels of disposable income. If in figure (A), consumption increases along line A_2,then in figure (B) there would be a

A.

shift from line B_2 to B_3.

B.

shift from line B_2 to B_1.

C.

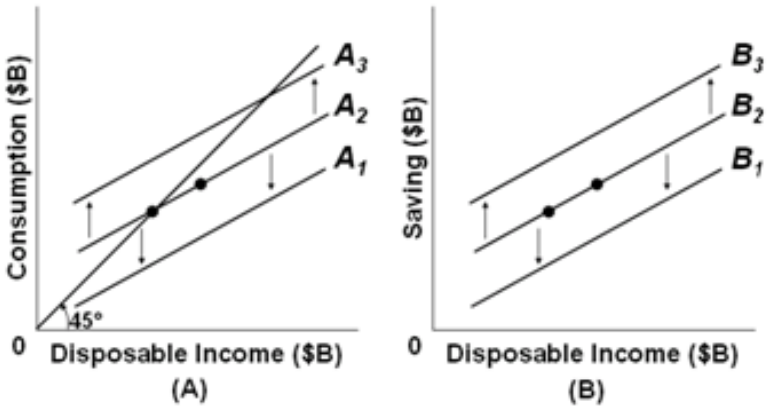
movement down along line B_2.

D.

movement up along line B_2.

68.

Use the following figures to answer the next question.



Refer to the above figures with consumption schedules in figure (A) and saving schedules in figure (B), which correspond to each other across different levels of disposable income. If in figure (A), consumption shifts from A_2 to A_3 because of a change in taxes, then in figure (B) line

A.

B_2 will shift to B_3.

B.

B_1 will shift to B_2.

C.

B_2 will shift to B_1.

D.

B_3 will shift to B_2.

69. The Great Recession of 2007-2009 altered the prior behavior of consumers in the economy by

A. shifting the consumption schedule up.

B. shifting the consumption schedule down.

C. shifting the saving schedule down.

D. moving the economy down along a stable consumption schedule.

70. The so-called Paradox of Thrift that became quite obvious in the Great Recession of 2007-2009 refers to all of the following, *except*

A. saving may be virtuous for the individual, but it could be bad for the economy as a whole.

B. consumers' thriftiness may help long-term growth but ironically reduces current output.

C. in trying to spend less now, consumers will end up spending more later on.

D. as individuals try to save more, the whole group may end up saving less as total income declines.

71. The Paradox of Thrift highlights the idea that

A. saving more is good for the economy in the short run.

B. saving more can be bad for the economy during a recession.

C. in spending more, households will end up saving less.

D. in spending more, workers may end up losing their jobs.

72. Two basic determinants of investment spending are

A. consumer spending and government spending.

B. expected returns and real interest rates.

C. general price level and the level of output.

D. domestic trade and international trade.

73. An investment demand curve shows the varying amounts of investment that would be undertaken at various levels of

A. the average price in the economy.

B. consumer spending.

C. personal saving.

D. the real interest rate.

74. Given the expected rate of return on all possible investment opportunities in the economy, a(n)

A. increase in the real rate of interest will tend to increase the level of investment.
B. decrease in the real rate of interest will tend to increase the level of investment.
C. decrease in the real rate of interest will tend to decrease the level of investment.
D. change in the real interest rate will have no impact on the level of investment.

75. If the real interest rate increases

A. the investment demand curve will shift to the right.
B. the investment demand curve will shift to the left.
C. there will be a movement upward along the investment demand curve.
D. there will be a movement downward along the investment demand curve.

76. Suppose that new computer software for accounting and analysis at a business has a useful life of only one year and costs $200,000 before it needs to be upgraded to a new version. The revenue generated by this software is expected to be $250,000. The expected rate of return from this new computer software is

A. 11%.
B. 20%.
C. 25%.
D. 80%.

77. Assume there are no investment projects that will produce an expected rate of return of 8% or more. There are, however, $2 billion worth of investment projects with an expected rate of return at 7%, an additional $2 billion for every drop of the interest rate by 1%. If the real interest rate is 3% in this economy, the cumulative amount of investment at the 3% or higher rate of return is

A. $10 billion.
B. $8 billion.
C. $6 billion.
D. $4 billion.

78. A firm invests in a new machine that costs $2,000 a year but is expected to produce an increase in total revenue of $2,200 a year. The current real rate of interest is 8%. The firm should

A. undertake the investment because the expected rate of return of 12% is greater than the real rate of interest.

B. undertake the investment because the expected rate of return of 10% is greater than the real rate of interest.
C. undertake the investment because the expected rate of return of 9% is greater than the real rate of interest.
D. not undertake the investment because the expected rate of return of 7% is less than the real rate of interest.

79. A firm invests in a new machine that costs $5,000 a year but is expected to produce an increase in total revenue of $5,200 a year. The current real rate of interest is 7%. The firm should

A. undertake the investment because the expected rate of return of 10% is greater than the real rate of interest.

B. undertake the investment because the expected rate of return of 8% is greater than the real rate of interest.

C. not undertake the investment because the expected rate of return of 6% is less than the real rate of interest.

D. not undertake the investment because the expected rate of return of 4% is less than the real rate of interest.

80.

Use the following cumulative investment schedule to answer the next question.

Expected Rate of Return	Cumulative Amount of Investment (in billions)
22%	$110
10	150
16	180
10	210
5	295
2	380

According to the cumulative investment table above

A. $150 billion worth of investments have expected rates of return exactly equal to 20%.

B. $150 billion worth of investments have expected rates of return of 20% or lower.

C. $40 billion worth of investments have expected rates of return between 20% and 22%.

D. $260 billion worth of investments have expected rates of return higher than 20%.

81.

Use the following cumulative investment schedule to answer the next question.

Expected Rate of Return	Cumulative Amount of Investment (in billions)
22%	$110
10	150
16	180
10	210
5	295
2	380

According to the cumulative investment table above, if the real interest rate falls from 20% to 16%, then

A. $180 billion of additional investments will be undertaken.

B. $330 billion of total investments will be undertaken.

C. $30 billion of additional investments will be undertaken.

D. $440 billion of total investments will be undertaken.

82.

The investment demand curve is drawn with the amount of investment on the

A.

vertical axis and disposable income on the horizontal axis.

B.

horizontal axis and disposable income on the vertical axis.

C.

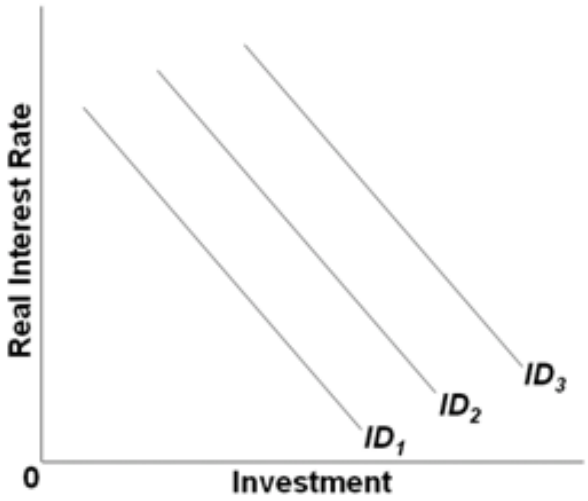
horizontal axis and the expected rate of return and interest rate on the vertical axis.

D.

vertical axis and the expected rate of return and interest rate on the horizontal axis.

83.

Use the following graph on the investment demand for capital goods to answer the next question.



Which of the following would shift the investment demand curve from ID_2 to ID_1?

A.

a falling real interest rate

B.

a rising real interest rate

C.

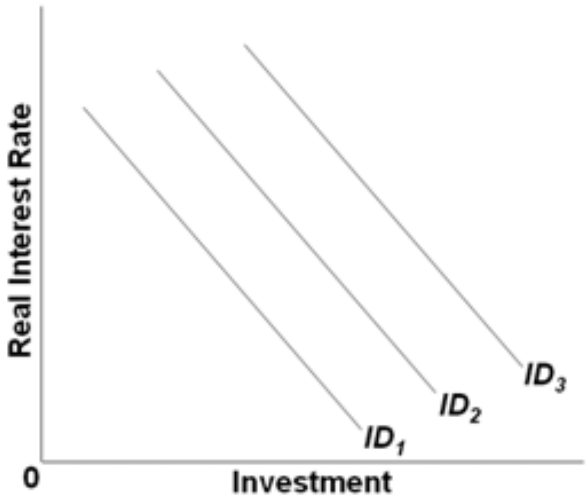
increasing operating costs for capital goods

D.

decreasing operating costs for capital goods

84.

Use the following graph on the investment demand for capital goods to answer the next question.



Which of the following would shift the investment demand curve from ID_2 to ID_3?

A. A lower real interest rate.

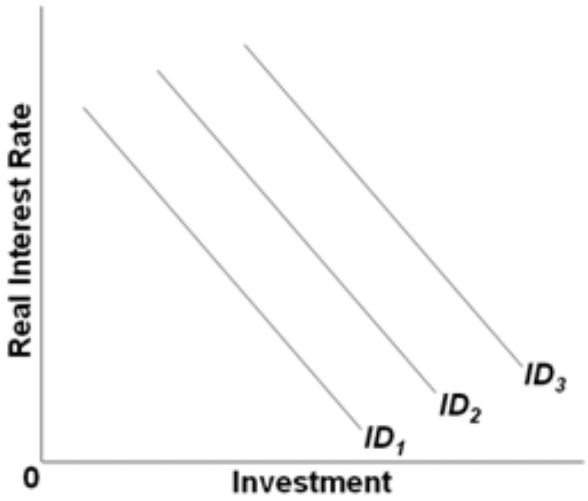
B. Rising maintenance costs of investment goods.

C. Increasing business taxes.

D. Falling stock of capital resources while output is high.

85.

Use the following graph on the investment demand for capital goods to answer the next question.



Which of the following would shift the investment demand curve from ID_2 to ID_1?

A. Rising real interest rates.

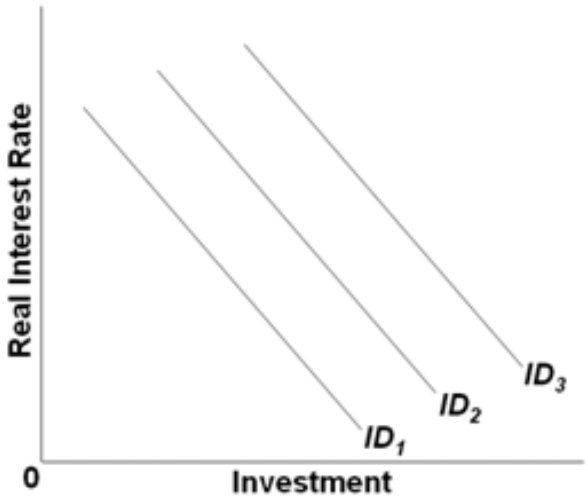
B. Increasing business taxes.

C. Lower acquisition cost of capital goods.

D. Higher expected rates of return on investment.

86.

Use the following graph on the investment demand for capital goods to answer the next question.



Which of the following would shift the investment demand curve from ID_2 to ID_3?

A. Greater inventories of capital goods.

B. Higher business taxes on capital goods.

C. A more rapid rate of technological progress.

D. Lower expected rates of return on investment in capital goods.

87. Which of the following factors would decrease investment demand?

A. A decrease in business taxes.

B. An increase in the cost of acquiring capital goods.

C. An increase in the rate of technological change.

D. A decrease in the stock of capital goods on hand.

88. If businesses feel more optimistic about the state of the economy, then this change is likely to

A. cause a movement up the investment demand curve.

B. cause a movement down the investment demand curve.

C. shift the investment demand curve to the left.

D. shift the investment demand curve to the right.

89. The investment demand curve will shift to the left as the result of

A. business pessimism about future economic conditions.

B. limited available productive capacity.

C. an increase in the interest rate.

D. a decrease in business taxes.

90. Which of the following factors does not help explain the instability of investment?

A. Business expectations can quickly change for unpredictable reasons.

B. Innovations in the economy occur quite irregularly.

C. Profits of firms are highly variable from one period to the next.

D. Purchases of capital goods are usually nondiscretionary and cannot be postponed.

91. The variability of business profits

A. helps explain the instability of investments over time.

B. does not affect investment spending, which depends on expected profits not current profits.

C. explains why the durability of capital goods is variable.

D. causes the variations in consumption spending over time.

92. Which factor explains the variability of investment?

A. The regularity of innovation.

B. The durability of capital goods.

C. The constancy of expectations.

D. The constancy of profits.

93. During the Great Recession of 2007-2009, real interest rates

A. declined to about zero, and investments increased sharply.
B. declined to about zero, and investments also declined sharply.
C. increased sharply, and investments declined significantly.
D. increased sharply, and investments also rose significantly.

94. During the Great Recession of 2007-2009, the investment demand curve shifted

A. left because of very low interest rates.
B. right because of very low interest rates.
C. left because of declines in expected returns.
D. right because of reductions in tax rates.

95. The investment schedule shows the

A. inverse relationship between the expected rate of return and the quantity of investment demanded.
B. positive relationship between the expected rate of return and the quantity of investment demanded.
C. amounts business firms collectively intend to invest at each possible level of GDP.
D. rate of interest that business firms must pay when they make investments in capital goods.

96. The difference between the investment demand curve and the investment schedule is that the former shows a(n)

A. direct relationship between investment and interest rate, while the latter shows no correlation between investment and income.
B. inverse relationship between investment and interest rate, while the latter shows no correlation between investment and income.
C. direct relationship between investment and income, while the latter shows no correlation between investment and interest rate.
D. inverse relationship between investment and income, while the latter shows no correlation between investment and interest rate.

97. Which of the following is graphed as a horizontal line across levels of real GDP in the aggregate expenditures model?

A.
the saving schedule

B.
the investment schedule

C.
the consumption schedule

D.
the investment demand curve

98. In the aggregate expenditure model, which of the following variables is assumed to be independent of real GDP?

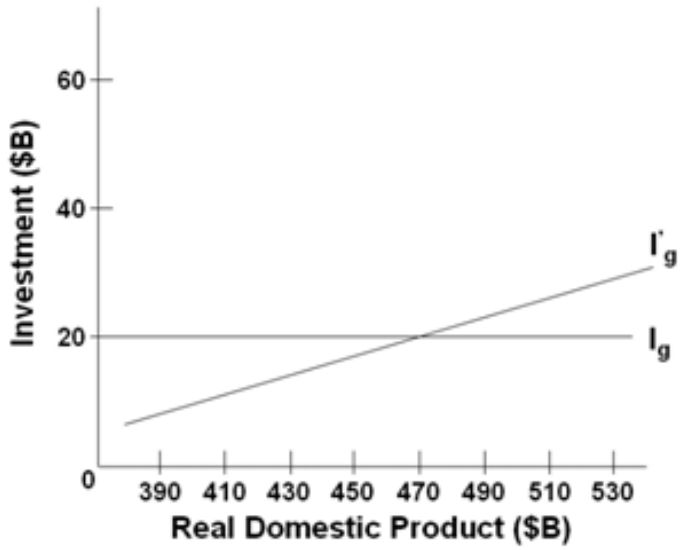
A. profit

B. saving

C. investment

D. consumption

99. Use the following graph to answer the next question.



The graph above indicates that

A.
I'_g is an investment schedule that assumes that the investment plans of business are independent of the current level of income, whereas I_g does not.

B.
I_g is an investment schedule that assumes that the investment plans of business are independent of the current level of income, whereas I'_g does not.

C.
the equilibrium level of investment is determined at the point where investment schedule I'_g crosses the I_g investment schedule.

D.
investment schedule I'_g shows the inverse relationship between real domestic product and investment.

100.A rightward shift of the investment demand curve will

A. shift the investment schedule downward.

B. shift the investment schedule upward.

C. decrease the quantity of investment.

D. decrease the real rate of interest.

101.If the real interest rate falls, then the

A. investment schedule will shift upward.

B. investment schedule will shift downward.

C. point moves along the investment schedule to the right.

D. consumption schedule will shift downward.

102.If the expected rate of return on investment decreases, then most likely the

A. investment schedule will shift upward.

B. investment schedule will shift downward.

C. consumption schedule will shift upward.

D. consumption schedule will shift downward.

103.Net exports are negative when

A. net exports exceed imports.

B. depreciation exceeds exports.

C. exports exceed imports.

D. imports exceed exports.

104.Over time, an increase in the real output and incomes of the trading partners of the United States will most likely

A. increase U.S. exports.

B. decrease U.S. exports.

C. increase imports of the U.S.

D. decrease imports of the U.S.

105.Which event would most likely decrease an economy's exports?

A. A decline in the tariff on products imported from abroad.

B. An increase in the prosperity of trading partners for this economy.

C. An appreciation of the nation's currency relative to foreign currencies.

D. A depreciation of the nation's currency relative to foreign currencies.

106. What is the likely result from a depreciation of a nation's currency when its economy is already operating at its full-employment level of output?

A. Net exports fall and contribute to demand-pull inflation.

B. Net exports rise and contribute to demand-pull inflation.

C. Net exports fall, but equilibrium GDP rises.

D. Net exports rise, but equilibrium GDP falls.

107. In the aggregate expenditures model of the economy, a downward shift in aggregate expenditures can be caused by a decrease in

A. government spending or an increase in taxes.

B. taxes or an increase in government spending.

C. interest rates or a decrease in taxes.

D. saving or an increase in government spending.

108. A tax-cut will have a greater effect on equilibrium GDP if the

A. marginal propensity to consume is smaller.

B. marginal propensity to save is smaller.

C. marginal propensity to save is larger.

D. average propensity to consume is larger.

109.In a private closed economy, the equilibrium condition for the economy is

A. AE = C + Ig = GDP.

B. AE = G + Ig = GDP.

C. AE = C + Ig + G = GDP.

D. C + Ig + G + NX = GDP.

110.

Use the following table to answer the next question.

All figures below are in billions of dollars.

Domestic Output or Income (GDP = DI)	Consumption
$240	$244
250	250
260	256
270	262
280	268
290	274
300	280
310	286
320	292

When there is no investment in this private closed economy, the equilibrium level of GDP will be

A. $240 billion.

B. $250 billion.

C. $260 billion.

D. $270 billion.

111.

Use the following table to answer the next question. All figures below are in billions of dollars.

Domestic Output or Income (GDP = DI)	Consumption
$240	$244
250	250
260	256
270	262
280	268
290	274
300	280
310	286
320	292

If gross investment is $12 billion, the equilibrium level of GDP will be

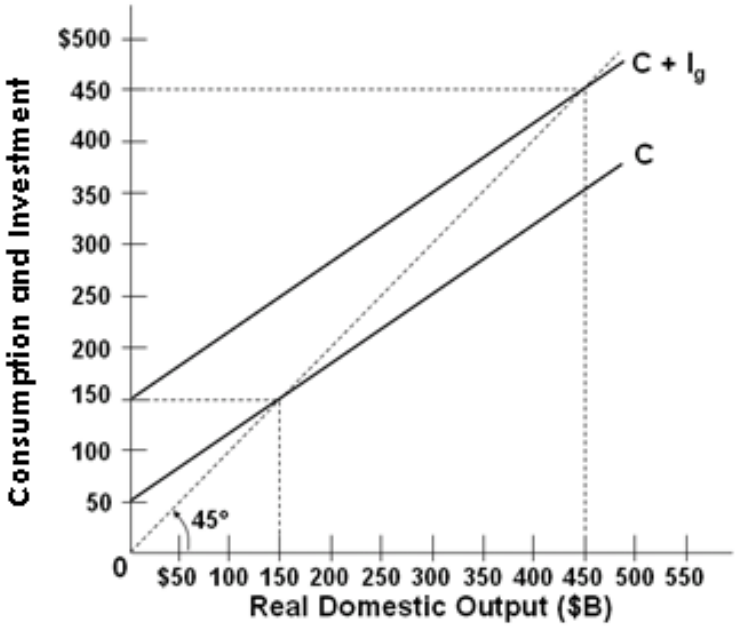
A. $260 billion.

B. $270 billion.

C. $280 billion.

D. $290 billion.

112. Use the following graph for a private closed economy to answer the next question.



In this economy, investment is

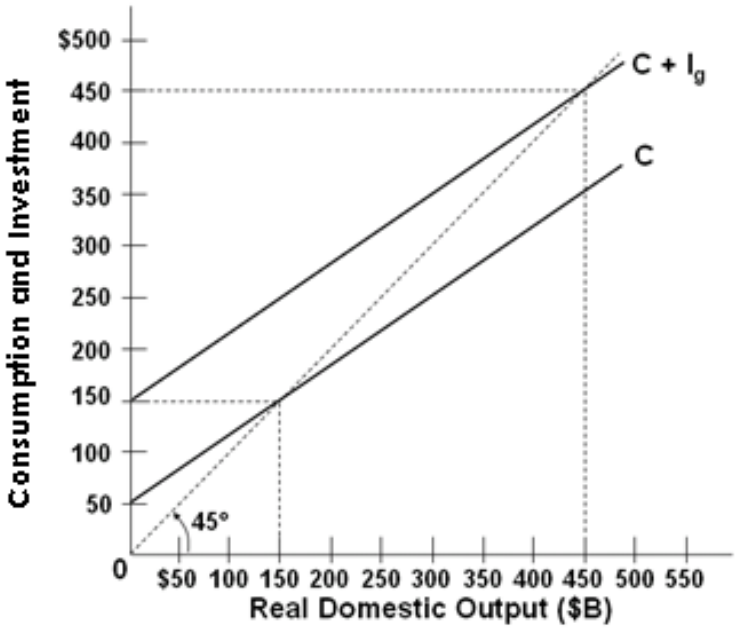
A. $50 billion.

B. $100 billion.

C. $150 billion.

D. $200 billion.

113.Use the following graph for a private closed economy to answer the next question.



The equilibrium level of GDP in this economy is

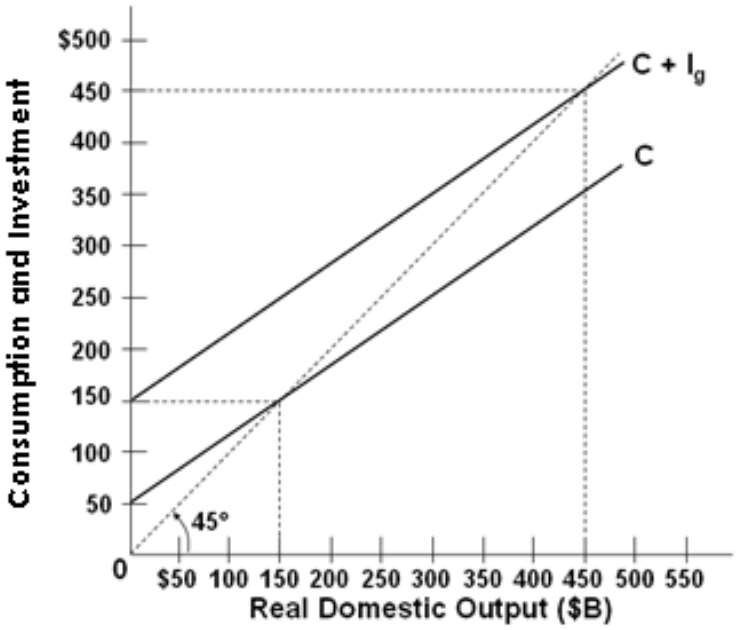
A. $150 billion.

B. $250 billion.

C. $350 billion.

D. $450 billion.

114.Use the following graph for a private closed economy to answer the next question.



At the equilibrium level of GDP, saving will be

A. $50 billion.

B. $100 billion.

C. $150 billion.

D. undeterminable from the information given.

115.

Use the following table with data for a private (no government) closed economy to answer the next question.

All figures are in billions of dollars.

Domestic Output or Income (GDP = DI)	Consumption
$540	$540
560	555
580	570
600	585
620	600
640	615
660	630

If planned investment is $25 billion, the equilibrium level of GDP will be

A. $600 billion.

B. $620 billion.

C. $640 billion.

D. $660 billion.

116.

Use the following table with data for a private closed economy to answer the next question.

All figures are in billions of dollars.

Expected Rate of Return	Investment	Consumption	GDP
10%	$ 0	$400	$ 400
8	100	500	600
6	200	600	800
4	300	700	1,000
2	400	800	1,200
0	500	900	1,400

If the real rate of interest is 2%, then the equilibrium level of GDP will be

A. $800 billion.

B. $1,000 billion.

C. $1,200 billion.

D. $1,400 billion.

117.

Use the following table with data for a private closed economy to answer the next question.

All figures are in billions of dollars.

Expected Rate of Return	Investment	Consumption	GDP
10%	$ 0	$400	$ 400
8	100	500	600
6	200	600	800
4	300	700	1,000
2	400	800	1,200
0	500	900	1,400

An increase in the real interest rate from 2% to 6% will

A. decrease the equilibrium level of GDP by $200 billion.

B. decrease the equilibrium level of GDP by $300 billion.

C. decrease the equilibrium level of GDP by $400 billion.

D. increase the equilibrium level of GDP by $400 billion.

118. Saving is $15 billion at the $125 billion equilibrium level of output in a closed, private economy. Actual investment must be

A. less than saving.

B. greater than saving.

C. equal to $15 billion.

D. equal to $125 billion.

119. Other things being equal, a decrease in an economy's exports will

A. increase domestic aggregate expenditures and the equilibrium level of GDP.

B. decrease domestic aggregate expenditures and the equilibrium level of GDP.

C. have no effect on domestic GDP because imports will offset the change in exports.

D. increase the amount of imports consumed by the private sector.

120. Other things constant, if domestic consumers purchase fewer foreign goods at each level of GDP, in the short run

A. GDP will rise.

B. GDP will fall.

C. foreign countries' GDP will rise.

D. there will be no change in GDP in this country.

121.

Use the following table to answer the next question.

The table shows a private open economy. All figures are in billions of dollars.

Real GDP	C + I	Net Exports
$400	$420	$20
450	460	20
500	500	20
550	540	20
600	580	20
650	620	20
700	660	20

The equilibrium real GDP is

A. $550.

B. $600.

C. $650.

D. $700.

122.

Use the following table with data for a private open economy to answer the next question.

All figures are in billions of dollars.

Real GDP	C + I	Net Exports
$400	$420	$20
450	460	20
500	500	20
550	540	20
600	580	20
650	620	20
700	660	20

If net exports increased by $10 billion at each level of GDP, the equilibrium real GDP would be

A.
not determinable using this table.

B.
$610.

C.
$650.

D.
$700.

123.

Use the following table with data for a private open economy to answer the next question.

All figures are in billions of dollars.

Real GDP	C + I	Net Exports
$400	$420	$20
450	460	20
500	500	20
550	540	20
600	580	20
650	620	20
700	660	20

If the investment in this economy is independent of income GDP, then a $10 increase in its net exports would increase its equilibrium real GDP by

A. $25.

B. $50.

C. $100.

D. $200.

124. Which of the following statements is correct?

A. An increase in exports will tend to increase, and an increase in imports will tend to decrease, the equilibrium GDP.

B. An increase in exports and an increase in imports will both tend to increase the equilibrium GDP.

C. An increase in exports and an increase in imports will both tend to decrease the equilibrium GDP.

D. An increase in exports will tend to decrease, and an increase in imports will tend to increase, the equilibrium GDP.

125.

Use the following table to answer the next question.

All figures in the table are in billions.

GDP	C + I	Exports	Imports
$500	$525	$15	$10
550	560	15	10
600	595	15	10
650	630	15	10
700	665	15	10
750	700	15	10

The equilibrium level of GDP in this private open economy is

A. $550 billion.

B. $600 billion.

C. $650 billion.

D. $700 billion.

126.

Use the following table to answer the next question.

All figures in the table below are in billions.

GDP	C + I	Exports	Imports
$500	$525	$15	$10
550	560	15	10
600	595	15	10
650	630	15	10
700	665	15	10
750	700	15	10

If exports increased by $15 billion at each level of GDP, all other factors constant, then the equilibrium level of GDP would be

A. $550 billion.

B. $600 billion.

C. $650 billion.

D. $700 billion.

127.

Use the following table to answer the next question.

All figures in the table below are in billions of dollars.

GDP	Aggregate Expenditures (Closed Economy)	Exports	Imports
$400	$440	$50	$60
450	480	50	60
500	520	50	60
550	560	50	60
600	600	50	60
650	640	50	60
700	680	50	60

If this economy were an open economy, the equilibrium GDP will be

A. $650 billion.

B. $600 billion.

C. $550 billion.

D. $500 billion.

128.

Use the following table to answer the next question.

All figures in the table below are in billions of dollars.

GDP	Aggregate Expenditures (Closed Economy)	Exports	Imports
$400	$440	$50	$60
450	480	50	60
500	520	50	60
550	560	50	60
600	600	50	60
650	640	50	60
700	680	50	60

If exports should decrease by $20 billion at each level of GDP, other factors constant, then the equilibrium GDP for the economy will be

A. $650 billion.

B. $550 billion.

C. $500 billion.

D. $450 billion.

129. In the aggregate expenditures model of the economy, a downward shift in aggregate expenditures can be caused by a decrease in

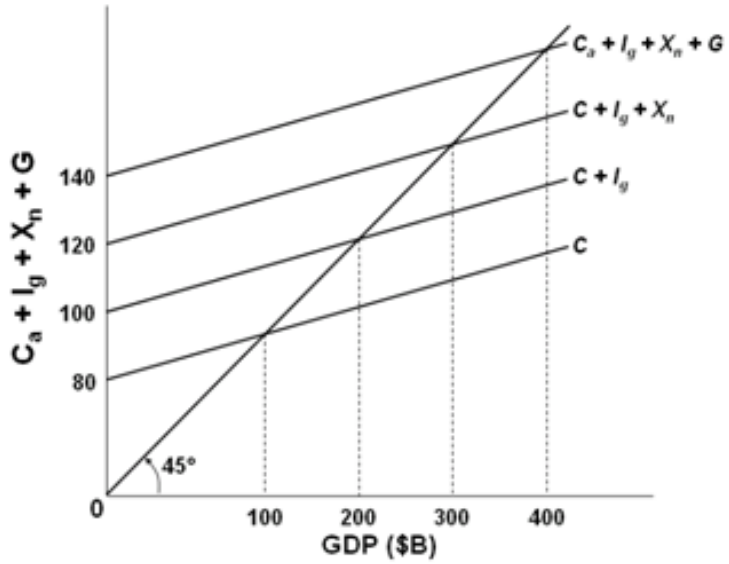
A. government spending or an increase in taxes.

B. taxes or an increase in government spending.

C. interest rates or a decrease in taxes.

D. saving or an increase in government spending.

130.Use the following graph to answer the next question.



In the above graph it is assumed that investment, net exports, and government expenditures

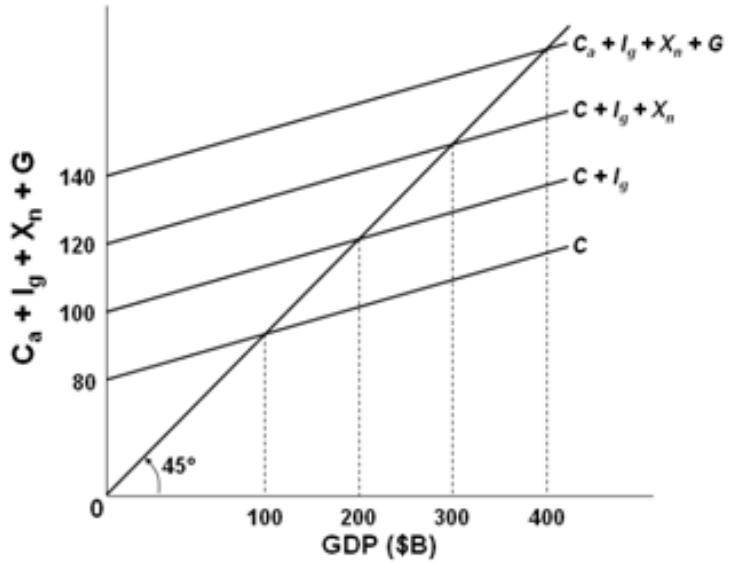
A. are all increasing.

B. vary directly with GDP.

C. vary inversely with GDP.

D. are independent of GDP.

131.Use the following graph to answer the next question.



If this economy was an open economy without a government sector, the level of GDP would be

A. $100 billion.

B. $200 billion.

C. $300 billion.

D. $400 billion.

132.

Use the following table to answer the next question.

The table shows a consumption schedule. All figures are in billions of dollars.

GDP	Consumption
$600	$580
640	610
680	640
720	670
760	700

If planned investment was $20 billion, government purchases of goods and services were $20 billion, and taxes and net exports were zero, then the equilibrium level of GDP would be

A. $600 billion.

B. $640 billion.

C. $680 billion.

D. $720 billion.

133.

Use the following table showing the consumption schedule for a hypothetical economy to answer the next question.

All figures are in billions of dollars.

GDP	Consumption
$600	$590
610	598
620	606
630	614
640	622
650	630
660	638

If planned investments were fixed at $16, taxes were zero, government purchases of goods and services were zero, and net exports were zero, then equilibrium real GDP would be $630 initially. If government purchases were then raised from $0 to $4, other things constant, then the equilibrium real GDP would become

A. $660.

B. $630.

C. $640.

D. $650.

134.

The following data show levels of planned variables for an economy. I = investment, S = saving after taxes, G = government spending, T = taxation, NX = exports, and M = imports. What is the equilibrium level of domestic output?

	I	S	G	T	NX	M
A	22	29	43	35	46	40
B	24	34	45	39	48	44
C	26	38	48	42	50	47
D	28	42	51	47	53	51

A.
choice A

B.
choice B

C.
choice C

D.
choice D

135.

Use the following table showing the consumption schedule for an economy to answer the next question.

All figures are in billions of dollars.

GDP	Consumption
$440	$450
490	490
540	530
590	570
640	610

If gross investment is $34 billion, net exports are zero, and there is a lump-sum tax of $30 billion at all levels of GDP, then the after-tax equilibrium level of GDP will be

A. $490 billion.

B. $540 billion.

C. $590 billion.

D. $640 billion.

136.

Use the following table showing the consumption schedule for an economy to answer the next question.

All figures are in billions of dollars.

GDP	Consumption
$440	$450
490	490
540	530
590	570
640	610

Given the level of investment at $34 billion, zero net exports, and a lump-sum tax of $30 billion, the addition of government expenditures of $20 billion at each level of GDP will result in an equilibrium GDP of

A. $490 billion.

B. $540 billion.

C. $590 billion.

D. $640 billion.

137. The multiplier effect relates changes in

A. the price level to changes in real GDP.

B. the interest rate to changes in investment.

C. disposable income to changes in consumption.

D. spending to changes in real GDP.

138. The multiplier can be calculated by dividing

A. the initial change in spending by the change in real GDP.

B. the change in real GDP by the initial change in spending.

C. one by one minus the marginal propensity to save.

D. one by one minus the marginal propensity to invest.

139. The simple multiplier formula assumes the following, *except* that

A. the economy has excess capacity and room to expand output.

B. firms will raise prices as buyers buy more of their output.

C. people will spend more if they earn additional income.

D. business firms will increase production if demand for their output increases.

140. Generally speaking, the greater the MPS, the

A. smaller would be the increase in income that results from an increase in consumption spending.
B. larger would be the increase in income that results from an increase in consumption spending.
C. larger would be the increase in income that results from a decrease in consumption spending.
D. smaller would be the increase in income that results from a decrease in consumption spending.

141. If the MPC is 0.75, the expenditure multiplier will be

A. 2.
B. 3.
C. 3.5.
D. 4.

142. If, in an economy, a $200 billion increase in consumption spending creates $200 billion of new income in the first round of the multiplier process and $160 billion in the second round, the marginal propensity to consume and the multiplier are, respectively

A. 0.8 and 5.0.
B. 0.4 and 2.5.
C. 0.4 and 1.67.
D. 0.2 and 1.25.

143.

Assume the marginal propensity to consume is 0.8. If consumer spending increases by $20 billion, then real GDP will

A. increase by $100 billion.

B. decrease by $100 billion.

C. increase by $16 billion.

D. will not change.

144. Assume that MPS is 0.4. If spending increases by $8 billion, then real GDP will increase by

A. $8 billion.

B. $13.3 billion.

C. $15 billion.

D. $20 billion.

145.

To answer the next question, use the information in the table below which illustrates the multiplier process resulting from an autonomous increase in investment by $5.

	Change in Income	Change in Consumption	Change in Savings
Assumed increase in investment	$5.00		$1.25
Second round		$2.81	
All other rounds		8.44	
Totals			5.00

The marginal propensity to consume is

A. 0.5.

B. 0.75.

C. 0.8.

D. 0.9.

146.

To answer the next question, use the information in the table below which illustrates the multiplier process resulting from an autonomous increase in investment by $5.

	Change in Income	Change in Consumption	Change in Savings
Assumed increase in investment	$5.00		$1.25
Second round		$2.81	
All other rounds		8.44	
Totals			5.00

The change in income in round two will be

A. $0.94.

B. $2.81.

C. $3.75.

D. $4.00.

147.

To answer the next question use the information in the table below which illustrates the multiplier process resulting from an autonomous increase in investment by $5.

	Change in Income	Change in Consumption	Change in Savings
Assumed increase in investment	$5.00		$1.25
Second round		$2.81	
All other rounds		8.44	
Totals			5.00

The total change in income resulting from the initial change in investment will be

A. $5.

B. $10.

C. $15.

D. $20.

148.

To answer the next question use the information in the table below which illustrates the multiplier process resulting from an autonomous increase in investment by $5.

	Change in Income	Change in Consumption	Change in Savings
Assumed increase in investment	$5.00		$1.25
Second round		$2.81	
All other rounds		8.44	
Totals			5.00

The multiplier in this economy is

A. 2.

B. 3.

C. 4.

D. 5.

149. An increase in spending of $25 billion increases real GDP from $600 billion to $700 billion. The marginal propensity to consume must be

A. 0.25 and the multiplier is 4.

B. 0.50 and the multiplier is 2.

C. 0.75 and the multiplier is 4.

D. 0.80 and the multiplier is 5.

150. The value of the multiplier is likely to fall if there is a fall in

A. consumption.

B. income.

C. total spending.

D. the marginal propensity to consume.

151. If the MPC is 0.8, what change in investment spending is required to effect a total change in income by $60 billion?

A. $12 billion

B. $15 billion

C. $20 billion

D. $25 billion

152. An $18 billion increase in spending creates $18 billion of new income in the first round of the multiplier process and $13.5 billion in the second round. The multiplier in the economy is

A. 2.

B. 3.

C. 4.

D. 5.

153. If the MPC in an economy is 0.75 and aggregate expenditures increase by $5 billion, then equilibrium GDP will increase by

A. $3.75 billion.

B. $6.7 billion.

C. $8.75 billion.

D. $20 billion.

154.

Use the data in the following table for a private closed economy to answer the next question. All figures are in billions of dollars.

Domestic Output or Income (GDP = DI)	Consumption
$540	$540
560	555
580	570
600	585
620	600
640	615
660	630

The MPC and multiplier are, respectively

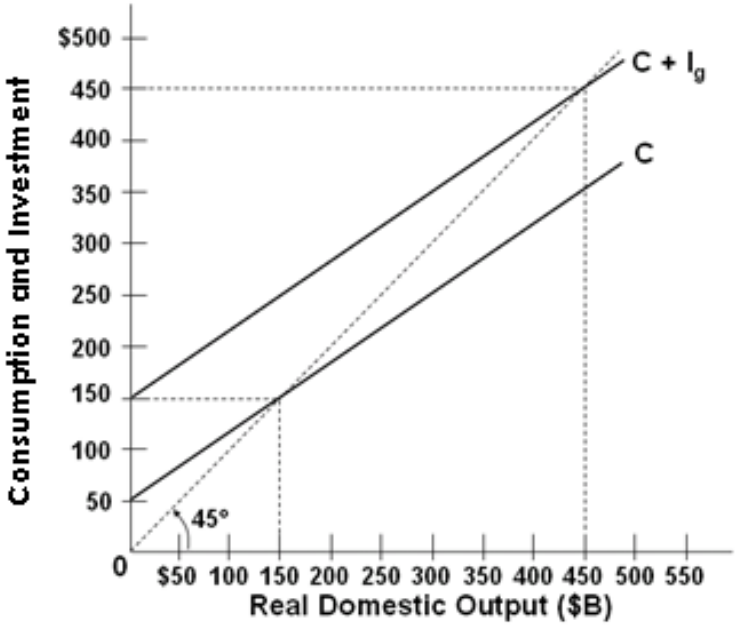
A. 0.80 and 5.

B. 0.75 and 4.

C. 0.75 and 1.33.

D. 0.80 and 1.25.

155.Use the following graph for a private closed economy to answer the next question.



The multiplier for the above economy is

A. 2.

B. 3.

C. 4.

D. 5.

156. In a private closed economy where MPC = 0.8, if consumers reduce their spending by $10 billion and firms cut investments by $5 billion, then equilibrium GDP will decrease by

A. $75 billion.

B. $25 billion.

C. $18.8 billion.

D. $15 billion.

157. Recently, the level of GDP has declined by $60 billion in an economy where the marginal propensity to consume is 0.75. Aggregate expenditures must have fallen by

A. $45 billion.

B. $30 billion.

C. $15 billion.

D. $60 billion.

158. The marginal propensity to save is 0.2. Equilibrium GDP will decrease by $50 billion if aggregate expenditures schedule decrease by

A. $10 billion.

B. $15 billion.

C. $16 billion.

D. $40 billion.

159. If aggregate expenditures increase by $12 billion and equilibrium GDP consequently increases by $48 billion, then the marginal propensity to save in the economy must be

A. 0.75.

B. 0.25.

C. 0.8.

D. 0.2.

160.

Use the following table to answer the next question. All figures in the table below are in billions.

GDP	Consumption + Investment	Exports	Imports
$500	$525	$15	$10
550	560	15	10
600	595	15	10
650	630	15	10
700	665	15	10
750	700	15	10

Assume that investment is not affected by the income GDP level. The multiplier for this private open economy is

A. 1.25.

B. 2.00.

C. 2.50.

D. 3.33.

161.

Use the following table to answer the next question. All figures in the table below are in billions of dollars.

GDP	Aggregate Expenditures (Closed Economy)	Exports	Imports
$400	$440	$50	$60
450	480	50	60
500	520	50	60
550	560	50	60
600	600	50	60
650	640	50	60
700	680	50	60

If this economy were closed to international trade, then the equilibrium GDP and the multiplier would be

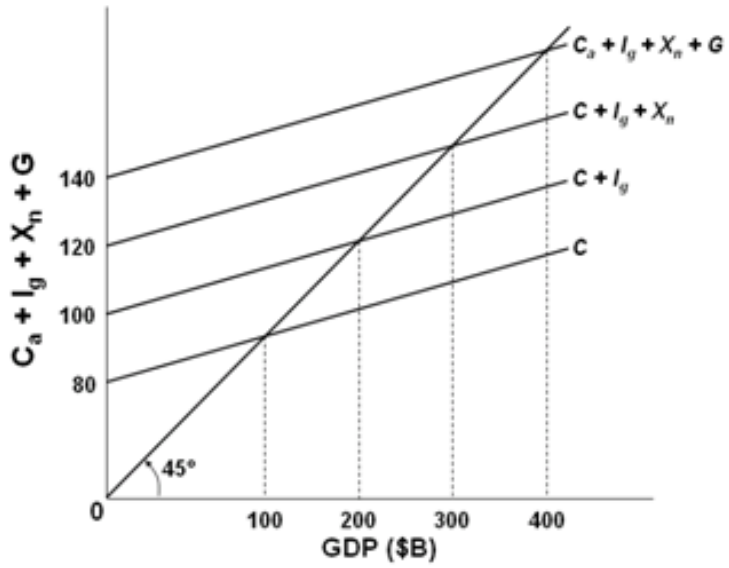
A. $500 billion and 5.

B. $500 billion and 4.

C. $600 billion and 5.

D. $600 billion and 4.

162. Use the following graph to answer the next question.



The size of the multiplier associated with changes in government spending in this economy is

A. 2.00.

B. 3.50.

C. 5.00.

D. 6.67.

163.

The table below shows the consumption schedule for a hypothetical economy. All figures are in billions of dollars.

Real GDP	Consumption
$600	$590
610	598
620	606
630	614
640	622
650	630
660	638

If planned investments were fixed at $16, taxes were zero, government purchases of goods and services were zero, and net exports were zero, then equilibrium real GDP would be $630 initially. If government purchases were then raised from $0 to $4, other things constant, the equilibrium real GDP would become

A. $660.

B. $630.

C. $640.

D. $650.

164. A tax cut will have a greater effect on equilibrium GDP if the

A. marginal propensity to consume is smaller.

B. marginal propensity to save is smaller.

C. marginal propensity to save is larger.

D. average propensity to consume is larger.

165. If a lump-sum tax of $40 billion is levied at each level of income and the MPC is 0.75, then the saving schedule will shift

A. upward by $10 billion.

B. upward by $25 billion.

C. downward by $10 billion.

D. downward by $25 billion.

166.

Use the following consumption schedule for an economy to answer the next question. All figures are in billions of dollars.

GDP	Consumption
$440	$450
490	490
540	530
590	570
640	610

If a government sector is introduced and a lump-sum tax of $30 billion is imposed at all levels of GDP, then the consumption column in the table becomes

A. $420, 460, 500, 540, 580.

B. $426, 466, 506, 546, 586.

C. $430, 470, 510, 550, 590.

D. $432, 472, 512, 552, 592.

167.

The table below shows the consumption schedule for a hypothetical economy. All figures are in billions of dollars.

Real GDP	Consumption
$600	$590
610	598
620	606
630	614
640	622
650	630
660	638

If planned investments were fixed at $16, taxes were zero, government purchases of goods and services were zero, and net exports were zero, then equilibrium real GDP would be $630 initially. If government purchases were then raised from $0 to $10 and lump-sum taxes also increased from $0 to $10, other things constant, the equilibrium real GDP would become

A. $660.

B. $630.

C. $640.

D. $650.

168. In the aggregate expenditures model, we note that an increase in government purchases G and an increase in lump-sum taxes T of the same amount will have

A. the same magnitudes of impact on equilibrium GDP, though in opposite directions.

B. different effects on GDP, with the change in G having a larger impact than the change in T.

C. different effects on GDP, with the change in T having a larger impact than the change in G.

D. essentially the same effect on equilibrium GDP, both in magnitude and in direction.

169. A constitutional amendment is passed that requires the government to have an annually balanced budget in the sense that changes in spending should be matched by equivalent changes in taxes. Should the government desire to increase GDP by $25 billion and meet the provisions of the law, it

A. cannot possibly reach its objective without breaking the law.

B. could increase spending by $25 billion and reduce taxes by $25 billion.

C. could increase spending by $25 billion and increase taxes by $25 billion.

D. could increase spending by $30 billion and increase taxes by $25 billion.

170. If a government raises its expenditures by $50 billion and at the same time levies a lump-sum tax of $50 billion, the net effect on the economy will be to

A. increase GDP by less than $50 billion.
B. increase GDP by more than $50 billion.
C. increase GDP by $50 billion.
D. make no change in GDP.

171. A personal tax cut of $50 billion will affect income differently than an increase in government spending by $50 billion because

A. the increase in government spending will produce a political business cycle.
B. the increase in government spending is less expansionary than the increase in taxes.
C. households may save part of the additional income from the tax cut.
D. households may consume more than the additional income from the tax cut.

172. If the marginal propensity to consume is .80 and both taxes and government purchases increase by $50 billion, GDP will

A. increase by $50 billion.
B. decrease by $50 billion.
C. increase by $10 billion.
D. decrease by $10 billion.

173. Suppose the GDP is in equilibrium at full employment and the MPC is .80. If government wants to increase its purchase of goods and services by $16 billion without changing equilibrium GDP, taxes should be

A. increased by $20 billion.
B. reduced by $16 billion.
C. increased by $16 billion.
D. reduced by $20 billion.

174. The effect of a decline in taxes on the level of income will differ somewhat from an increase in government expenditures of the same amount because

A. tax declines tend to be more expansionary.
B. households may not spend all of an increase in disposable income.
C. the MPC that applies to the incomes of households always exceeds the MPC that applies to business incomes.
D. the multiplier is high when the MPS is low.

175. Assuming that MPC is .75, equal increases in government spending and tax collections by $10 billion will

A. leave the equilibrium GDP unchanged.
B. increase the equilibrium GDP by $10 billion.
C. increase the equilibrium GDP by $2.5 billion.
D. reduce the equilibrium GDP by $10 billion.

176.

Use the aggregate expenditures model and the following values to answer the next question.

A	MPC	I	G	T
$900	0.9	$2,500	$2,500	$1,000

Determine equilibrium GDP for this economy.

A. $50,000

B. $59,000

C. $60,000

D. $69,000

177.

Use the aggregate expenditures model and the following values to answer the next question.

A	MPC	I	G	T
$900	0.9	$2,500	$2,500	$1,000

Determine equilibrium consumption for this economy.

A. $44,100

B. $45,000

C. $45,900

D. $50,000

178.

Use the aggregate expenditures model and the following values to answer the question below.

A	MPC	I	G	T
$900	0.9	$2,500	$2,500	$1,000

Determine the change in the equilibrium level of GDP (find ΔY) following a decrease in investment from 2,500 to 2,000 (ΔI = -$500).

A.
negative $5,000

B.
positive $5,000

C.
negative $4,000

D.
positive $4,000

179.

Use the aggregate expenditures model and the following values to answer the next question.

A	MPC	I	G	T
$900	0.9	$2,500	$2,500	$1,000

Determine the change in the equilibrium level of Consumption (find ΔC) following a decrease in investment from 2,500 to 2,000 (ΔI = -$500).

A.
negative $4,000

B.
positive $4,000

C.
negative $4,500

D.
positive $4,500

180.

Use the aggregate expenditures model and the following values to answer the next question.

A	MPC	I	G	T
$350	0.75	$400	$400	$200

Determine equilibrium GDP for this economy.

A. $3,800

B. $4,000

C. $4,600

D. $5,400

181.

Use the aggregate expenditures model and the following values to answer the next question.

A	MPC	I	G	T
$350	0.75	$400	$400	$200

Determine equilibrium consumption for this economy.

A. $2,850

B. $3,000

C. $3,200

D. $3,350

182.

Use the aggregate expenditures model and the following values to answer the next question.

A	MPC	I	G	T
$350	0.75	$400	$400	$200

Determine the change in the equilibrium GDP (find ΔY) following a decrease in government spending from 400 to 300 (ΔG = -$100).

A.
negative $500

B.
positive $500

C.
negative $400

D.
positive $400

183.

Use the aggregate expenditures model and the following values to answer the next question.

A	MPC	I	G	T
$350	0.75	$400	$400	$200

Determine the change in the equilibrium level of consumption (find ΔC) following a decrease in government spending from 400 to 300 (ΔG = -$100).

A.
negative $300

B.
positive $300

C.
negative $400

D.
positive $400

184.

Use the aggregate expenditures model and the following values to answer the next question.

A	MPC	I	G	T
$750	0.5	$1,000	$1,000	$500

Determine equilibrium GDP for this economy.

A. $4,000

B. $4,500

C. $5,000

D. $5,500

185.

Use the aggregate expenditures model and the following values to answer the next question.

A	MPC	I	G	T
$750	0.5	$1,000	$1,000	$500

Determine equilibrium consumption for this economy.

A. $2,500

B. $3,000

C. $3,250

D. $3,500

186.

Use the aggregate expenditures model and the following values to answer the next question.

A	MPC	I	G	T
$750	0.5	$1,000	$1,000	$500

Determine the new equilibrium GDP following a decrease in taxes from 500 to 400 (ΔT = -$100).

A. $4,000

B. $4,500

C. $4,900

D. $5,100

187.

Use the aggregate expenditures model and the following values to answer the next question.

A	MPC	I	G	T
$750	0.5	$1,000	$1,000	$500

Determine the new equilibrium GDP following a decrease in taxes from 500 to 400 (ΔT = -$100).

A. $2,900

B. $3,000

C. $3,100

D. $3,200

188.When aggregate expenditure is greater than GDP, then there will be an unplanned

A. increase in inventories and GDP will increase.

B. decrease in inventories and GDP will increase.

C. increase in inventories and GDP will decrease.

D. decrease in inventories and GDP will decrease.

189.In a private closed economy, there will be an unplanned increase in inventories when

A. aggregate expenditures exceed GDP.

B. aggregate expenditures exceed (C + I).

C. (C + I) exceeds aggregate expenditures.

D. GDP exceeds aggregate expenditures.

190.

Use the following table with data for a private (no government) closed economy to answer the next question. All figures are in billions of dollars.

Domestic Output or Income (GDP = DI)	Consumption
$540	$540
560	555
580	570
600	585
620	600
640	615
660	630

If planned investment is $25 billion, then aggregate expenditures at the income level of $560 billion will be

A. $565 billion.

B. $580 billion.

C. $585 billion.

D. $595 billion.

191.

Use the following table with data for a private (no government) closed economy to answer the next question All figures are in billions of dollars.

Domestic Output or Income (GDP = DI)	Consumption
$540	$540
560	555
580	570
600	585
620	600
640	615
660	630

If planned investment is $15 billion, then at the $560 billion level of output, there will be an unplanned

A. increase in inventories of $5 billion.

B. increase in inventories of $10 billion.

C. decrease in inventories of $5 billion.

D. decrease in inventories of $10 billion.

192.

Use the following table with data for a private (no government) closed economy to answer the next question. All figures are in billions of dollars.

Domestic Output or Income (GDP = DI)	Consumption
$540	$540
560	555
580	570
600	585
620	600
640	615
660	630

If planned investment is $18 billion, then at the $660 billion level of disposable income, there will be an unplanned

A. increase in inventories of $12 billion.

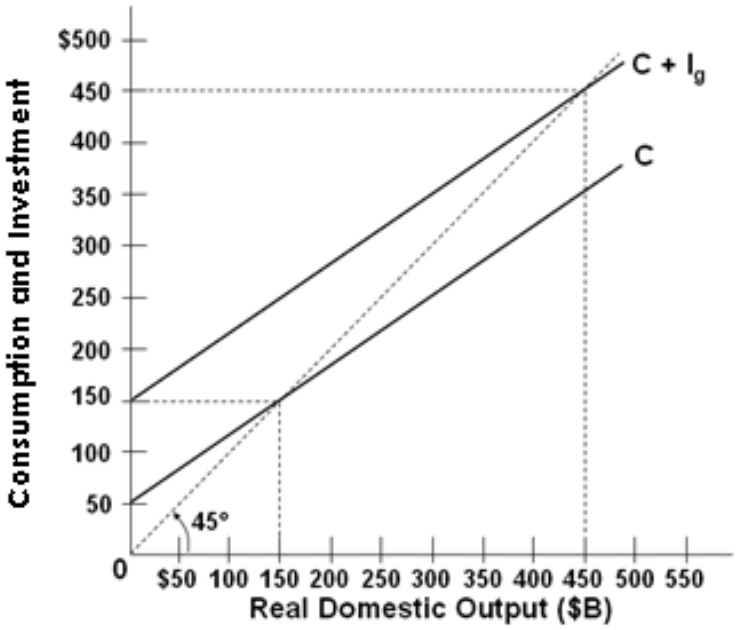
B. increase in inventories of $30 billion.

C. decrease in inventories of $12 billion.

D. decrease in inventories of $30 billion.

193.

Use the following graph with data for a private closed economy to answer the next question.



At the $150 billion level of GDP, aggregate expenditures are

A. less than real GDP, so GDP will rise.

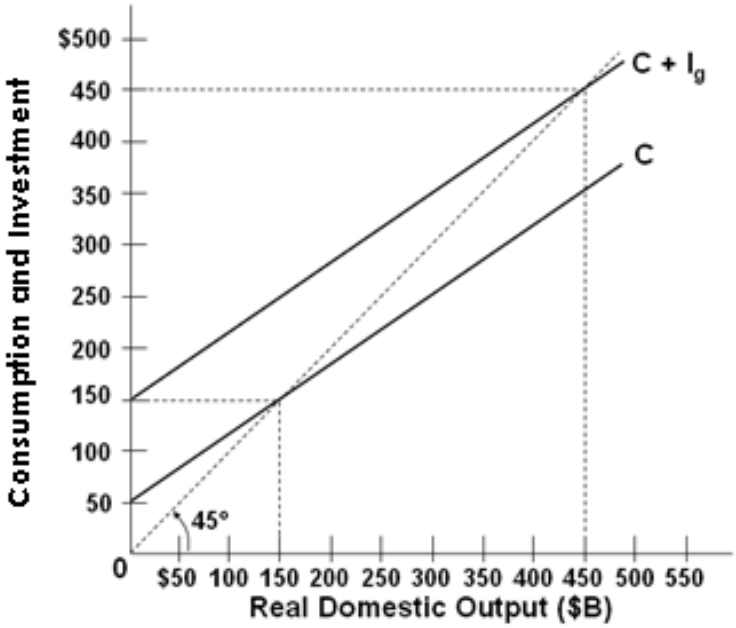
B. more than real GDP, so GDP will fall.

C. more than real GDP, so GDP will rise.

D. equal to GDP, so there will be no change in GDP.

194.

Use the following graph with data for a private closed economy to answer the next question.



When output or income is $350 billion there will be

A. equilibrium GDP.

B. saving exceeding planned investment.

C. unplanned increases in inventories.

D. unplanned decreases in inventories.

195.

When the economy is at its equilibrium GDP level, which one of the following will not occur?

A.

Aggregate expenditures = GDP.

B.

Inventories will be zero.

C.

Saving equals planned investment.

D.

There are no unplanned changes in inventories.

196.If GDP exceeds aggregate expenditures in a private closed economy

A. saving will exceed planned investment.

B. planned investment will exceed saving.

C. planned investment will exceed actual investment.

D. injections will exceed leakages.

197.When planned investment exceeds saving in a private closed economy

A. aggregate expenditures will equal GDP.

B. aggregate expenditures will exceed GDP.

C. aggregate expenditures will be less than GDP.

D. consumption plus investment will equal GDP.

198.If actual investment exceeds planned investment in a private closed economy, then

A. real GDP will decrease.

B. real GDP will increase.

C. saving exceeds planned investment.

D. there is an unplanned decrease in inventories.

199.When saving is less than planned investment in the aggregate expenditures model of a private closed economy, then

A. real GDP will decrease.

B. the rate of interest will decline.

C. there will be a decline in the price level.

D. there will be a rise in real GDP.

200. Planned investment is $20 billion and saving is $15 billion when GDP in the economy is $180 billion. The economy is

A. at the equilibrium level of GDP.
B. in disequilibrium and its GDP will increase.
C. in disequilibrium and its GDP will decrease.
D. having a GDP level that is greater than its aggregate expenditures.

201. Saving is $40 billion and planned investment is $28 billion at the $175 billion level of output in a private closed economy. At this level

A. consumption will be $147 billion.
B. actual investment will be $28 billion.
C. unplanned investment will be positive $12 billion.
D. unplanned investment will be negative $12 billion.

202. In the aggregate expenditures model, the equilibrium GDP is

A. assumed to be equal to the potential GDP level.
B. not necessarily equal to the full-employment GDP.
C. always above the potential GDP level.
D. always less than the full-employment GDP level.

203. In a recessionary expenditure gap, the equilibrium level of real GDP is

A. less than planned aggregate expenditures.

B. greater than planned aggregate expenditures.

C. greater than full-employment GDP.

D. less than full-employment GDP.

204. The amount by which an aggregate expenditures schedule must shift upward to achieve the full-employment GDP is a(n)

A. inflationary expenditure gap.

B. recessionary expenditure gap.

C. expenditure multiplier gap.

D. negative net export gap.

205. In an inflationary expenditure gap, the equilibrium level of real GDP is

A. greater than planned investment.

B. equal to full-employment GDP.

C. greater than full-employment GDP.

D. less than full-employment GDP.

206. An economy characterized by high unemployment is likely to be

A. experiencing a high rate of economic growth.

B. experiencing hyperinflation.

C. having a recessionary expenditure gap.

D. having an inflationary expenditure gap.

207. If the MPC in an economy is 0.8, government could close a recessionary expenditure gap of $100 billion by cutting taxes by

A. $80 billion.

B. $100 billion.

C. $125 billion.

D. $200 billion.

208. Assume that the marginal propensity to consume in an economy is 0.75. If the economy's full-employment real GDP is $900 billion and its equilibrium real GDP is $800 billion, there is a recessionary expenditure gap of

A. $25 billion.

B. $100 billion.

C. $133 billion.

D. $400 billion.

209. Assume that the marginal propensity to consume in an economy is 0.9. If the economy's full-employment real GDP is $500 billion and its equilibrium real GDP is $550 billion, there is an inflationary expenditure gap of

A. $5 billion.
B. $50 billion.
C. $100 billion.
D. $500 billion.

210. To close an inflationary expenditure gap of $20 billion in an economy with a marginal propensity to consume of 0.8, it would be necessary to

A. decrease the aggregate expenditures schedule by $20 billion.
B. decrease the aggregate expenditures schedule by $4 billion.
C. increase the aggregate expenditures schedule by $20 billion.
D. increase the aggregate expenditures schedule by $4 billion.

211. The amount by which aggregate expenditures exceed those associated with the full-employment level of domestic output can best be described as

A. a recessionary expenditure gap.
B. an inflationary expenditure gap.
C. the multiplier.
D. the average propensity to save.

212. In an open mixed economy, the inflationary expenditure gap may be described as the

A.
excess of GDP over $C_a + I_g + X_n + G$ at the full-employment output.

B.
excess of $S_a + M + T$ over $I_g + X + G$ at the full-employment GDP.

C.
extra consumption that occurs when investment increases in a full-employment economy.

D.
excess of $C_a + I_g + X_n + G$ at the full-employment GDP.

213. The $787-billion stimulus package enacted by the federal government in 2009 to try to deal with the Great Recession was intended to

A. shift the aggregate expenditures schedule down.

B. close an inflationary expenditures-gap.

C. bring inflation down.

D. push the aggregate expenditures schedule upward.

214. In 2008 during the Great Recession, the federal government provided tax rebate checks to taxpayers in the hope that

A. C would shift down.

B. C would shift up.

C. G would shift down.

D. G would shift up.

215. Say's law in classical economics suggests that, over a period of time, aggregate spending would tend to

A. exceed total output and income.

B. fall short of total output and income.

C. equal total output and income.

D. deviate from total output and income.

Aggregate Expenditures Model Key

1. The most basic premise of the aggregate expenditures model is that the

A. total output produced in the economy depends directly on the level of total spending.

B. level of employment in the economy depends inversely on the real wage rate.

C. total output produced depends mostly on the total capacity of firms to produce.

D. unemployment level in the economy is inversely related to the inflation rate.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #1
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: Define the purpose and assumptions associated with the aggregate expenditures model.
Section: Introduction to Aggregate Expenditures
Topic: Assumptions and Simplifications

2. One basic assumption of the aggregate expenditures model is that

A. the economy is operating at full employment.

B. there is inflation in the economy.

C. there is no public sector in the economy.

D. the average price level in the economy is fixed.

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Asarta - Test Bank... #2

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: Define the purpose and assumptions associated with the aggregate expenditures model.

Section: Introduction to Aggregate Expenditures

Topic: Assumptions and Simplifications

3. John Maynard Keynes developed the aggregate expenditures model in order to understand the

A. Second World War.

B. Great Depression.

C. oil crises of the 1970s and 1980s.

D. Great Recession of 2007-2009.

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Asarta - Test Bank... #3

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: Define the purpose and assumptions associated with the aggregate expenditures model.

Section: Introduction to Aggregate Expenditures

Topic: Assumptions and Simplifications

4. In a private closed economy, the components of aggregate expenditures are

A. consumption and government spending.

B. consumption and net exports.

C. consumption, investment, and net exports.

D. consumption and investment.

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Asarta - Test Bank... #4

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: Define the purpose and assumptions associated with the aggregate expenditures model.

Section: Introduction to Aggregate Expenditures

Topic: Assumptions and Simplifications

5. John Maynard Keynes created the aggregate expenditures model based primarily on what historical event?

A. bank panic of 1907

B. the Great Depression

C. spectacular economic growth during World War II

D. economic expansion of the 1920s

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #5
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: Define the purpose and assumptions associated with the aggregate expenditures model.
Section: Introduction to Aggregate Expenditures
Topic: Assumptions and Simplifications

6. The aggregate expenditures model is built upon which of the following assumptions?

A. Prices are fixed.

B. The economy is at full employment.

C. Prices are fully flexible.

D. Government spending policy has no ability to affect the level of output.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #6

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: Define the purpose and assumptions associated with the aggregate expenditures model.

Section: Introduction to Aggregate Expenditures

Topic: Assumptions and Simplifications

7. Personal saving is equal to

A. disposable income plus consumption.

B. consumption minus disposable income.

C. disposable income minus consumption.

D. consumption divided by disposable income.

AACSB: Analytic

Accessibility: Keyboard Navigation

Asarta - Test Bank... #7

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: Calculate the marginal propensities to consume and save using provided data.

Section: The Marginal Propensities to Consume and Save

Topic: The Income-Consumption and Income-Saving Relationships

8. As disposable income decreases, consumption

A. and saving both increase.

B. and saving both decrease.

C. increases and saving decreases.

D. decreases and saving increases.

AACSB: Analytic

Accessibility: Keyboard Navigation

Asarta - Test Bank... #8

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: Calculate the marginal propensities to consume and save using provided data.

Section: The Marginal Propensities to Consume and Save

Topic: The Income-Consumption and Income-Saving Relationships

9. The MPC can be defined as the

A. change in consumption divided by the change in income.

B. change in income divided by the change in consumption.

C. ratio of income to saving.

D. ratio of saving to consumption.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #9
Blooms: Apply
Difficulty: 1 Easy
Learning Objective: Calculate the marginal propensities to consume and save using provided data.
Section: The Marginal Propensities to Consume and Save
Topic: The Income-Consumption and Income-Saving Relationships

10. An MPC value of less than 1.0 indicates that as income increases consumption

A. also increases, and by more than the increase in income.

B. also increases, and at the same rate as the increase in income.

C. will go in the opposite direction and decrease.

D. also increases, though not as much as income.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #10
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: Calculate the marginal propensities to consume and save using provided data.
Section: The Marginal Propensities to Consume and Save
Topic: The Income-Consumption and Income-Saving Relationships

11. If a family's MPC is 0.7, it means that the family is

A. operating at the break-even point.

B. spending seven-tenths of any increment to its income.

C. necessarily dissaving.

D. spending 70% of its disposable income.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #11
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: Calculate the marginal propensities to consume and save using provided data.
Section: The Marginal Propensities to Consume and Save
Topic: The Income-Consumption and Income-Saving Relationships

12. Assume that an increase in a household's disposable income from $40,000 to $48,000 leads to an increase in consumption from $35,000 to $41,000, then the

A. marginal propensity to consume is 0.75.

B. average propensity to consume is 0.75.

C. marginal propensity to save is 0.20.

D. marginal propensity to consume is 0.6.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #12
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: Calculate the marginal propensities to consume and save using provided data.
Section: The Marginal Propensities to Consume and Save
Topic: The Income-Consumption and Income-Saving Relationships

13. If Matt's disposable income increases from $4,000 to $4,500 and his level of saving increases from $200 to $325, it may be concluded that his marginal propensity to:

A. consume is .80.

B. consume is .75.

C. consume is .60.

D. save is .30.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #13
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: Calculate the marginal propensities to consume and save using provided data.
Section: The Marginal Propensities to Consume and Save
Topic: The Income-Consumption and Income-Saving Relationships

14. If disposable income increases from $912 to $927 billion and MPC = 0.6, then consumption will increase by

A. $6 billion.

B. $9 billion.

C. $54 billion.

D. $56 billion.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #14
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: Calculate the marginal propensities to consume and save using provided data.
Section: The Marginal Propensities to Consume and Save
Topic: The Income-Consumption and Income-Saving Relationships

15. If disposable income decreases from $1800 to $1500 and MPC = 0.75, then saving will

A. increase by $225.

B. decrease by $225.

C. increase by $75.

D. decrease by $75.

AACSB: Analytic

Accessibility: Keyboard Navigation

Asarta - Test Bank... #15

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: Calculate the marginal propensities to consume and save using provided data.

Section: The Marginal Propensities to Consume and Save

Topic: The Income-Consumption and Income-Saving Relationships

16. The relationship between the MPS and the MPC is such that

A. MPC - MPS = 1.

B. MPS/MPC = 1.

C. 1 - MPC = MPS.

D. MPC - 1 = MPS.

AACSB: Analytic

Accessibility: Keyboard Navigation

Asarta - Test Bank... #16

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: Calculate the marginal propensities to consume and save using provided data.

Section: The Marginal Propensities to Consume and Save

Topic: The Income-Consumption and Income-Saving Relationships

17. When the marginal propensity to consume is less than 1, the

A. average propensity to consume is greater than 1.

B. average propensity to save is greater than 1.

C. marginal propensity to save is negative.

D. marginal propensity to save is positive.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #17
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: Calculate the marginal propensities to consume and save using provided data.
Section: The Marginal Propensities to Consume and Save
Topic: The Income-Consumption and Income-Saving Relationships

18. With an MPS of 0.3, the MPC will be

A. 1 - 0.3.

B. 0.3 - 1.

C. 1/0.3.

D. 0.3.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #18
Blooms: Apply
Difficulty: 1 Easy
Learning Objective: Calculate the marginal propensities to consume and save using provided data.
Section: The Marginal Propensities to Consume and Save
Topic: The Income-Consumption and Income-Saving Relationships

19. In a private closed economy, national income is $4.5 trillion and savings equals $6.4 billion. Based on this data, the marginal propensity to consume

A. decreases as income increases.

B. is greater than the marginal propensity to save.

C. is less than the average propensity to consume.

D. cannot be calculated from the data given.

AACSB: Analytic

Accessibility: Keyboard Navigation

Asarta - Test Bank... #19

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Calculate the marginal propensities to consume and save using provided data.

Section: The Marginal Propensities to Consume and Save

Topic: The Income-Consumption and Income-Saving Relationships

20.

Use the following data to answer the next question.

The disposable income (DI) and consumption (C) schedules are for a private, closed economy. All figures are in billions of dollars.

Disposable Income	Consumption
$300	$310
350	340
400	370
450	400
500	430

The marginal propensity to consume is

A. .80.

B. .75.

C. .60.

D. .40.

AACSB: Analytic

Asarta - Test Bank... #20

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: Calculate the marginal propensities to consume and save using provided data.

Section: The Marginal Propensities to Consume and Save

Topic: The Income-Consumption and Income-Saving Relationships

21.

Use the following data to answer the next question.

The disposable income (DI) and consumption (C) schedules are for a private, closed economy. All figures are in billions of dollars.

Disposable Income	Consumption
$300	$310
350	340
400	370
450	400
500	430

If disposable income is $550, we would expect consumption to be

A. $430.

B. $450.

C. $460.

D. $470.

AACSB: Analytic

Asarta - Test Bank... #21

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: Calculate the marginal propensities to consume and save using provided data.

Section: The Marginal Propensities to Consume and Save

Topic: The Income-Consumption and Income-Saving Relationships

22.

Use the following data to answer the next question.

The disposable income (DI) and consumption (C) schedules are for a private, closed economy. All figures are in billions of dollars.

Disposable Income	Consumption
$ 0	$ 8
80	80
160	152
240	224
320	296
400	368

The marginal propensity to save in this economy is

A. .1.

B. .72.

C. .8.

D. .9.

AACSB: Analytic

Asarta - Test Bank... #22

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Calculate the marginal propensities to consume and save using provided data.

Section: The Marginal Propensities to Consume and Save

Topic: The Income-Consumption and Income-Saving Relationships

23.

Use the following data to answer the next question.

The disposable income (DI) and consumption (C) schedules are for a private, closed economy. All figures are in billions of dollars.

Disposable Income	Consumption
$10,000	$12,000
18,000	18,000
26,000	24,000
34,000	30,000
42,000	36,000
50,000	42,000

If disposable income is $42,000, then saving is

A. $0.

B. $2,000.

C. $4,000.

D. $6,000.

AACSB: Analytic

Asarta - Test Bank... #23

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Calculate the marginal propensities to consume and save using provided data.

Section: The Marginal Propensities to Consume and Save

Topic: The Income-Consumption and Income-Saving Relationships

24.

Use the following data to answer the next question.

The disposable income (DI) and consumption (C) schedules are for a private, closed economy. All figures are in billions of dollars.

Disposable Income	Consumption
$10,000	$12,000
18,000	18,000
26,000	24,000
34,000	30,000
42,000	36,000
50,000	42,000

The marginal propensity to consume is

A. .60.

B. .75.

C. .80.

D. .20.

AACSB: Analytic

Asarta - Test Bank... #24

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Calculate the marginal propensities to consume and save using provided data.

Section: The Marginal Propensities to Consume and Save

Topic: The Income-Consumption and Income-Saving Relationships

25. The fraction, or percentage, of total income that is consumed is called the

A. break-even income.

B. consumption schedule.

C. marginal propensity to consume.

D. average propensity to consume.

AACSB: Analytic

Accessibility: Keyboard Navigation

Asarta - Test Bank... #25

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: Calculate the marginal propensities to consume and save using provided data.

Section: The Marginal Propensities to Consume and Save

Topic: The Income-Consumption and Income-Saving Relationships

26. If disposable income is $900 billion when the average propensity to consume is 0.9, it can be concluded that

A. the marginal propensity to consume is also 0.9.

B. the marginal propensity to save is 0.1.

C. consumption is $900 billion.

D. saving is $90 billion.

AACSB: Analytic

Accessibility: Keyboard Navigation

Asarta - Test Bank... #26

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: Calculate the marginal propensities to consume and save using provided data.

Section: The Marginal Propensities to Consume and Save

Topic: The Income-Consumption and Income-Saving Relationships

27.

Use the following data to answer the next question.

The disposable income (DI) and consumption (C) schedules are for a private, closed economy. All figures are in billions of dollars.

Disposable Income	Consumption
$ 0	$ 8
80	80
160	152
240	224
320	296
400	368

At the $320 billion level of disposable income, the average propensity to save is

A. .015.

B. .075.

C. .335.

D. .925.

AACSB: Analytic

Asarta - Test Bank... #27

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Calculate the marginal propensities to consume and save using provided data.

Section: The Marginal Propensities to Consume and Save

Topic: The Income-Consumption and Income-Saving Relationships

28.

Use the following data to answer the next question.

The disposable income (DI) and consumption (C) schedules are for a private, closed economy. All figures are in billions of dollars.

Disposable Income	Consumption
$ 0	$ 8
80	80
160	152
240	224
320	296
400	368

If consumption increases by $10 billion at each level of disposable income, the marginal propensity to consume will

A. change, but the average propensity to consume will *not* change.

B. change, and the average propensity to consume will change.

C. *not* change, but the average propensity to consume will change.

D. *not* change, and the average propensity to consume will *not* change.

AACSB: Analytic
Asarta - Test Bank... #28
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: Calculate the marginal propensities to consume and save using provided data.
Section: The Marginal Propensities to Consume and Save
Topic: The Income-Consumption and Income-Saving Relationships

29. The amount of consumption in an economy correlates

A. inversely with the level of disposable income.

B. directly with the level of disposable income.

C. directly with the level of saving.

D. directly with the rate of interest.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #29
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between consumption and income.
Section: Consumption and Income
Topic: The Income-Consumption and Income-Saving Relationships

30. The consumption schedule shows the relationship of household consumption to the level of

A. saving.

B. investment.

C. disposable income.

D. the marginal propensity to consume.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #30
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between consumption and income.
Section: Consumption and Income
Topic: The Income-Consumption and Income-Saving Relationships

31. When a consumption schedule is plotted as a straight line, the slope of the consumption line is

A. vertical.

B. horizontal.

C. greater than the slope of the 45º line.

D. less than the slope of the 45º line.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #31
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between consumption and income.
Section: Consumption and Income
Topic: The Income-Consumption and Income-Saving Relationships

32. When the consumption schedule is plotted on a graph, consumption is on the

A. horizontal axis and saving is on the vertical axis.

B. vertical axis and saving is on the horizontal axis.

C. horizontal axis and disposable income is on the vertical axis.

D. vertical axis and disposable income is on the horizontal axis.

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Asarta - Test Bank... #32

Blooms: Understand

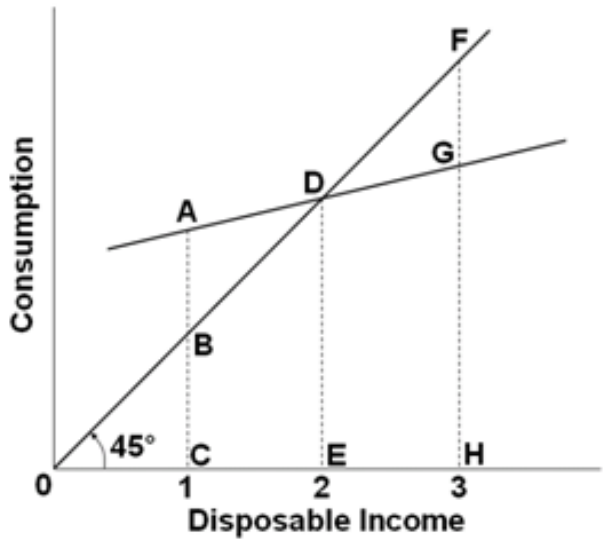
Difficulty: 1 Easy

Learning Objective: Illustrate the relationship between consumption and income.

Section: Consumption and Income

Topic: The Income-Consumption and Income-Saving Relationships

33. Use the following consumption schedule to answer the next question.



At income level 3, the amount of consumption is represented by the line segment

A. FG.

B. FH.

C. FD.

D. GH.

AACSB: Reflective Thinking

Asarta - Test Bank... #33

Blooms: Understand

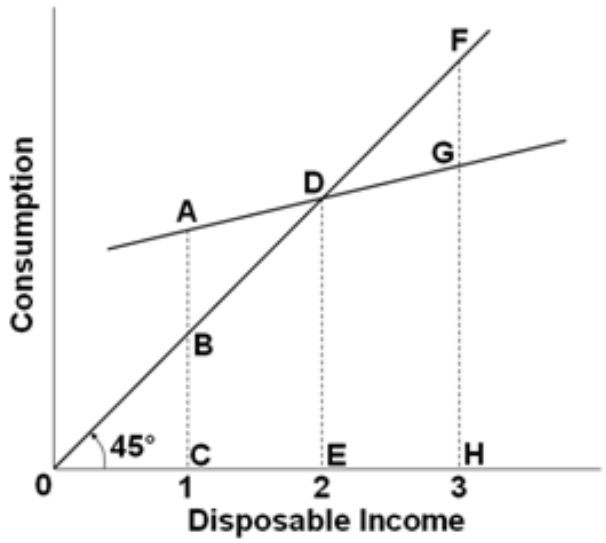
Difficulty: 2 Medium

Learning Objective: Illustrate the relationship between consumption and income.

Section: Consumption and Income

Topic: The Income-Consumption and Income-Saving Relationships

34. Use the following consumption schedule to answer the next question.



Disposable income equals consumption at point

A. A.

B. C.

C. D.

D. G.

AACSB: Reflective Thinking

Asarta - Test Bank... #34

Blooms: Understand

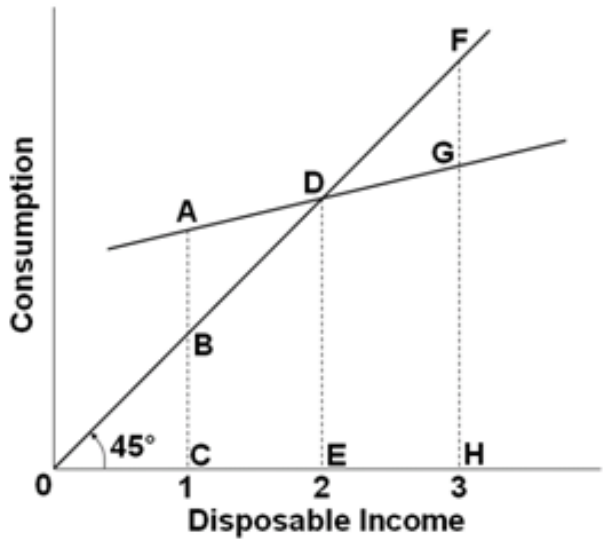
Difficulty: 2 Medium

Learning Objective: Illustrate the relationship between consumption and income.

Section: Consumption and Income

Topic: The Income-Consumption and Income-Saving Relationships

35. Use the following consumption schedule to answer the next question.



The break-even level of income would be at income level

A. 0.

B. 1.

C. 2.

D. 3.

AACSB: Reflective Thinking

Asarta - Test Bank... #35

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: Illustrate the relationship between consumption and income.

Section: Consumption and Income

Topic: The Income-Consumption and Income-Saving Relationships

36. An increase in disposable income

A. increases consumption because it shifts the consumption schedule upward.

B. decreases consumption because it shifts the consumption schedule downward.

C. increases consumption by moving upward along a given consumption schedule.

D. decreases consumption by moving downward along a given consumption schedule.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #36
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: Illustrate the relationship between consumption and income.
Section: Consumption and Income
Topic: The Income-Consumption and Income-Saving Relationships

37. The slope of the consumption schedule between two points on the schedule is

A. the ratio of the change in consumption to the change in disposable income between those two points.

B. the ratio of the change in disposable income over the change in consumption between those two points.

C. equivalent to one plus the marginal propensity to save.

D. equivalent to the average propensity to consume.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #37
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between consumption and income.
Section: Consumption and Income
Topic: The Income-Consumption and Income-Saving Relationships

38. If the consumption schedule is a straight line, it can be concluded that the

A. APC is necessarily constant.

B. MPC is zero.

C. MPC is constant at various levels of income.

D. APC is equal to the MPC.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #38
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: Illustrate the relationship between consumption and income.
Section: Consumption and Income
Topic: The Income-Consumption and Income-Saving Relationships

39. What is the slope of the consumption schedule or consumption line for a given economy?

A. APC

B. APS

C. 1 - MPC

D. 1 - MPS

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #39
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between consumption and income.
Section: Consumption and Income
Topic: The Income-Consumption and Income-Saving Relationships

40. If the slope of a linear consumption schedule increases in a private closed economy, then it can be concluded that the

A. MPS has increased.

B. MPC has increased.

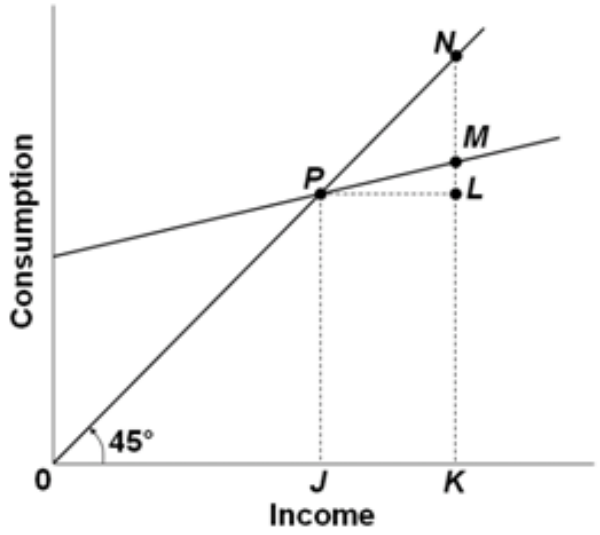
C. income has increased.

D. income has decreased.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #40
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between consumption and income.
Section: Consumption and Income
Topic: The Income-Consumption and Income-Saving Relationships

41.

Use the following consumption schedule to answer the next question.



The graph above shows the relationship between consumption and income. The ratio LM/PL would be a measure of the

A. marginal propensity to consume.

B. marginal propensity to save.

C. average propensity to consume.

D. average propensity to save.

AACSB: Reflective Thinking

Asarta - Test Bank... #41

Blooms: Understand

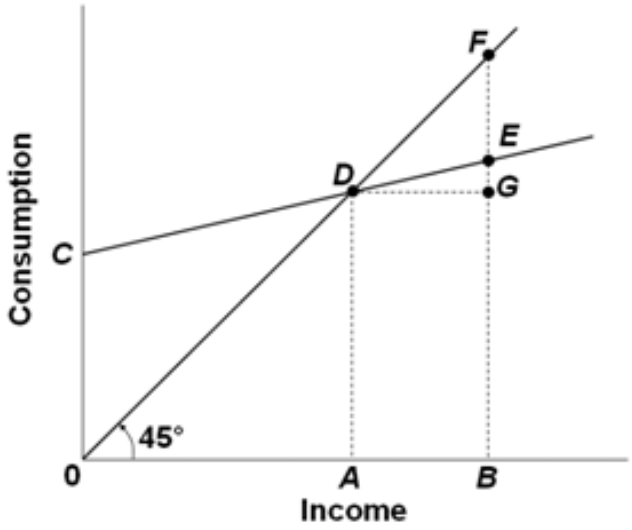
Difficulty: 2 Medium

Learning Objective: Illustrate the relationship between consumption and income.

Section: Consumption and Income

Topic: The Income-Consumption and Income-Saving Relationships

42. Use the following consumption schedule to answer the next question.



The marginal propensity to consume is represented by

A.
GF/BE.

B.
EF/BE.

C.
GE/AB.

D.
DE/AB.

AACSB: Reflective Thinking

Asarta - Test Bank... #42

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: Illustrate the relationship between consumption and income.

Section: Consumption and Income

Topic: The Income-Consumption and Income-Saving Relationships

43. Which of the following may shift the consumption schedule upward?

A. An increase in disposable income.

B. A decrease in interest rates.

C. A significant decrease in stock prices.

D. A decrease in people's ability to borrow.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #43
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between consumption and income.
Section: Consumption and Income
Topic: The Income-Consumption and Income-Saving Relationships

44. Which of the following would shift the consumption schedule downward?

A. A decrease in real interest rates.

B. An increase in the value of financial assets.

C. An increase in the probability of a recession.

D. A decrease in disposable income.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #44
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between consumption and income.
Section: Consumption and Income
Topic: The Income-Consumption and Income-Saving Relationships

45. When consumers decide to increase household debt, this action will

A. shift the consumption schedule upward.

B. shift the consumption schedule downward.

C. increase the amount consumed along a stable consumption schedule.

D. decrease the amount consumed along a stable consumption schedule.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #45
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between consumption and income.
Section: Consumption and Income
Topic: The Income-Consumption and Income-Saving Relationships

46. A lower real interest rate typically induces consumers to

A. save more.

B. buy fewer imported goods.

C. purchase more goods that are bought using credit.

D. purchase fewer goods that are bought without using credit.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #46
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between consumption and income.
Section: Consumption and Income
Topic: The Income-Consumption and Income-Saving Relationships

47. In an economy, for every $10 million increase in disposable income, saving increases by $2 million. It can be concluded that the

A. slope of the saving schedule is 2.

B. slope of the consumption schedule is .8.

C. marginal propensity to consume is .2.

D. average propensity to save is 0.2.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #47
Blooms: Understand
Difficulty: 3 Hard
Learning Objective: Illustrate the relationship between consumption and income.
Section: Consumption and Income
Topic: The Income-Consumption and Income-Saving Relationships

48. The saving schedule shows the relationship of saving of households to the level of

A. consumption.

B. investment.

C. disposable income.

D. the average propensity to save.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #48
Blooms: Understand
Difficulty: 1 Easy

Learning Objective: Illustrate the relationship between savings and income.
Section: Savings and Income
Topic: The Income-Consumption and Income-Saving Relationships

49. If households consume less at each level of disposable income, they are

A. saving more.

B. saving less.

C. spending more.

D. working less.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #49
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between savings and income.
Section: Savings and Income
Topic: The Income-Consumption and Income-Saving Relationships

50. Dissaving occurs when

A. income is greater than saving.

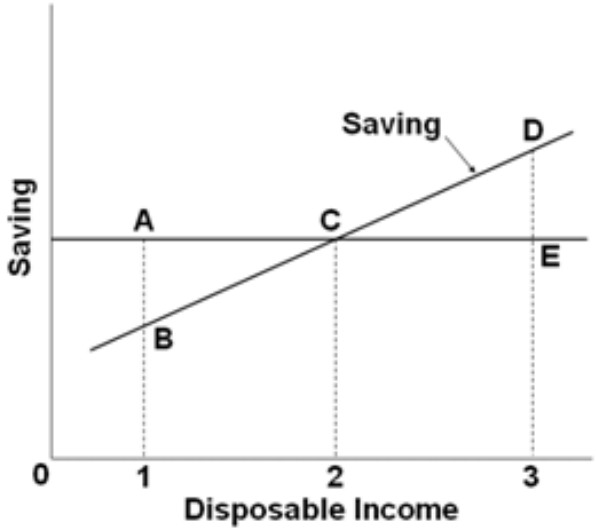
B. income is less than consumption.

C. saving is greater than consumption.

D. saving is greater than the interest rate.

AACSB: Communication
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #50
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between savings and income.
Section: Savings and Income
Topic: The Income-Consumption and Income-Saving Relationships

51. Use the following saving schedule to answer the next question.



Dissaving occurs when disposable income is

A. equal to level 2.

B. less than level 2.

C. greater than level 2.

D. equal to level 3.

AACSB: Reflective Thinking

Asarta - Test Bank... #51

Blooms: Understand

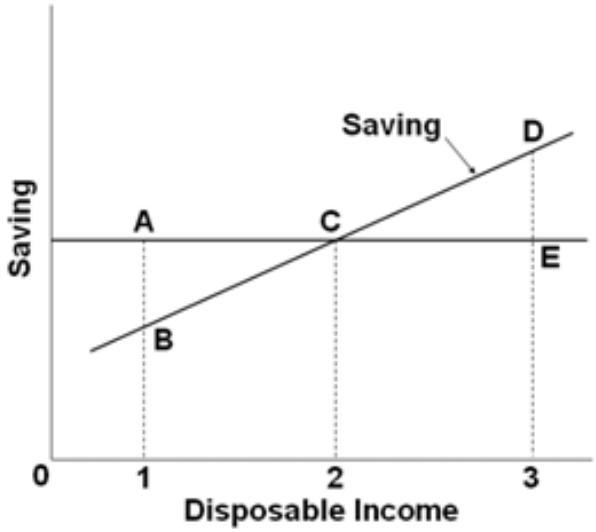
Difficulty: 2 Medium

Learning Objective: Illustrate the relationship between savings and income.

Section: Savings and Income

Topic: The Income-Consumption and Income-Saving Relationships

52. Use the following saving schedule to answer the next question.



The break-even income would be level

A. 0.

B. 1.

C. 2.

D. 3.

AACSB: Reflective Thinking

Asarta - Test Bank... #52

Blooms: Understand

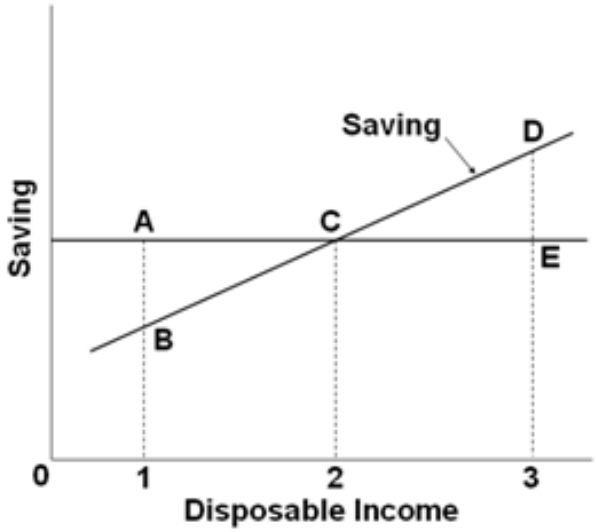
Difficulty: 2 Medium

Learning Objective: Illustrate the relationship between savings and income.

Section: Savings and Income

Topic: The Income-Consumption and Income-Saving Relationships

53. Use the following saving schedule to answer the next question.



As income falls from level 3 to level 2, the amount of

A. dissaving decreases.

B. dissaving increases.

C. saving decreases.

D. saving increases.

AACSB: Reflective Thinking

Asarta - Test Bank... #53

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: Illustrate the relationship between savings and income.

Section: Savings and Income

Topic: The Income-Consumption and Income-Saving Relationships

54. If the slope of the consumption schedule is 0.75, then the slope of the saving schedule is

A. 0.25.

B. 0.75.

C. 1.25.

D. not possible to determine from the data.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #54
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: Illustrate the relationship between savings and income.
Section: Savings and Income
Topic: The Income-Consumption and Income-Saving Relationships

55. An increase in household wealth that creates a wealth effect would shift the consumption schedule

A. and the saving schedule upward.

B. and the saving schedule downward.

C. upward and the saving schedule downward.

D. downward and the saving schedule upward.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #55
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between savings and income.
Section: Savings and Income
Topic: The Income-Consumption and Income-Saving Relationships

56. The so-called wealth effect will result in households spending

A. more and saving less.

B. less and saving more.

C. less and saving less.

D. more and saving more.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #56
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between savings and income.
Section: Savings and Income
Topic: The Income-Consumption and Income-Saving Relationships

57. Which of the following would shift the saving schedule upward?

A. A decrease in wealth.

B. A decrease in real interest rates.

C. Consumer expectations of rising prices of products.

D. Increased optimism about future incomes.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #57
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between savings and income.
Section: Savings and Income
Topic: The Income-Consumption and Income-Saving Relationships

58. The saving schedule would be shifted upward by

A. an increase in the value real and financial assets.

B. a reduction in real interest rates.

C. expectations of rising prices of products.

D. a decrease in taxes.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #58
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between savings and income.
Section: Savings and Income
Topic: The Income-Consumption and Income-Saving Relationships

59. If consumers expect prices to rise and shortages to occur in the future, then there will be a shift

A. upward of both the consumption and saving schedules.

B. downward of both the consumption and saving schedules.

C. of the consumption schedule upward and of the saving schedule downward.

D. of the consumption schedule downward and the saving schedule upward.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #59
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between savings and income.
Section: Savings and Income
Topic: The Income-Consumption and Income-Saving Relationships

60. As the consumption and saving schedules relate to real GDP, an increase in taxes will shift

A. upward both the consumption and saving schedules.

B. downward both the consumption and saving schedules.

C. the consumption schedule upward and the saving schedule downward.

D. the saving schedule upward and the consumption schedule downward.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #60
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between savings and income.
Section: Savings and Income
Topic: The Income-Consumption and Income-Saving Relationships

61. A change in interest rates would shift the consumption schedule and the saving schedule _____; a change in taxes would shift these two schedules _____.

A. in the same direction; also in the same direction

B. in the same direction; in opposite directions

C. in opposite directions; also in opposite directions

D. in opposite directions; in the same direction

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #61
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: Illustrate the relationship between savings and income.
Section: Savings and Income
Topic: The Income-Consumption and Income-Saving Relationships

62. A change in the amount saved due to a change in income is represented by a

A. shift of the entire saving schedule.

B. movement along the saving schedule.

C. change in the marginal propensity to save.

D. change in the marginal propensity to consume.

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Asarta - Test Bank... #62

Blooms: Understand

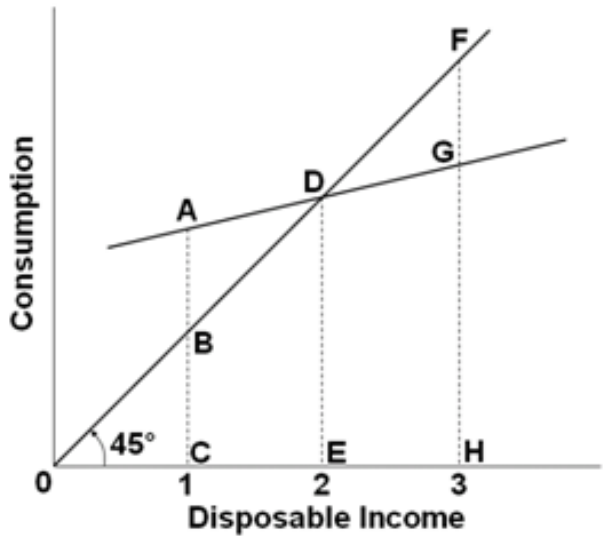
Difficulty: 1 Easy

Learning Objective: Illustrate the relationship between savings and income.

Section: Savings and Income

Topic: The Income-Consumption and Income-Saving Relationships

63. Use the following consumption schedule to answer the next question.



At income level 3, the amount of saving is represented by the line segment

A. FG.

B. FH.

C. FD.

D. GH.

AACSB: Reflective Thinking

Asarta - Test Bank... #63

Blooms: Understand

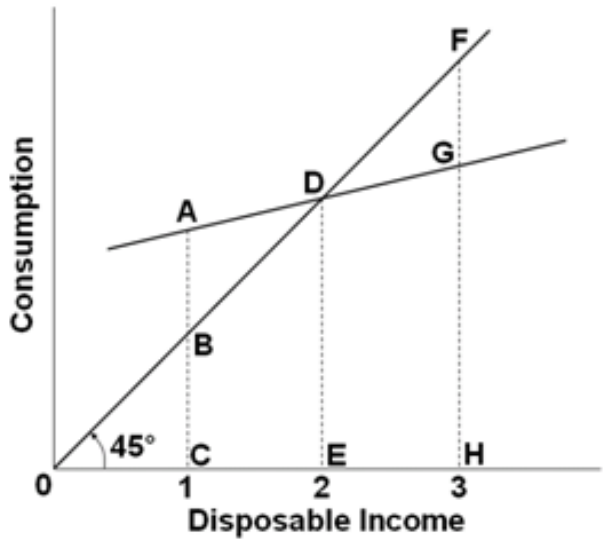
Difficulty: 2 Medium

Learning Objective: Illustrate the relationship between savings and income.

Section: Savings and Income

Topic: The Income-Consumption and Income-Saving Relationships

64. Use the following consumption schedule to answer the next question.



At income level 1, the amount of saving is

A. positive.

B. negative.

C. zero.

D. not measurable.

AACSB: Reflective Thinking

Asarta - Test Bank... #64

Blooms: Understand

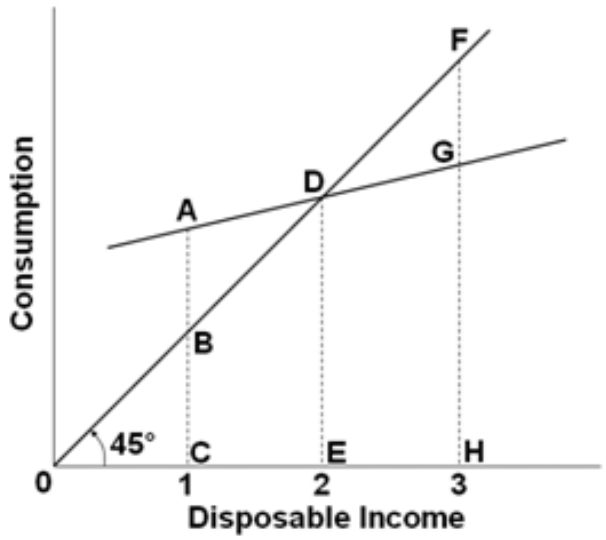
Difficulty: 2 Medium

Learning Objective: Illustrate the relationship between savings and income.

Section: Savings and Income

Topic: The Income-Consumption and Income-Saving Relationships

65. Use the following consumption schedule to answer the next question.



As income falls from level 3 to level 2, the amount of consumption

A. increases and the amount of dissaving increases.

B. decreases and the amount of dissaving decreases.

C. decreases and the amount of saving decreases.

D. decreases and the amount of saving increases.

AACSB: Reflective Thinking

Asarta - Test Bank... #65

Blooms: Understand

Difficulty: 3 Hard

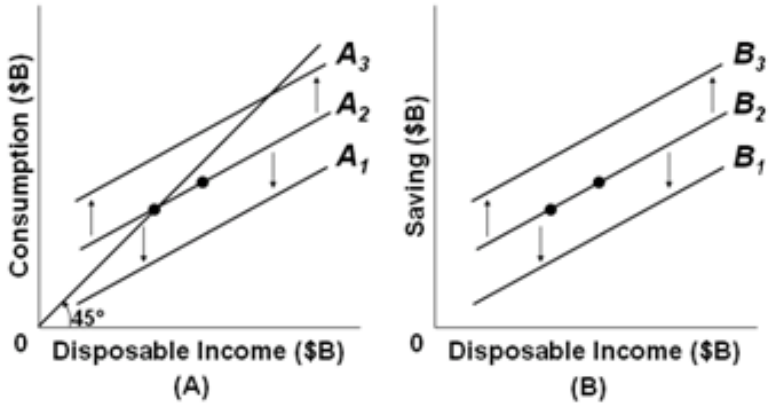
Learning Objective: Illustrate the relationship between savings and income.

Section: Savings and Income

Topic: The Income-Consumption and Income-Saving Relationships

66.

Use the following figures to answer the next question.



Refer to the above figures with consumption schedules in figure (A) and saving schedules in figure (B), which correspond to each other across different levels of disposable income. If, in figure (A), line A_2 shifts to A_3 because of the so-called wealth effect, then in figure (B) line

A.

B_2 will shift to B_3.

B.

B_1 will shift to B_2.

C.

B_2 will shift to B_1.

D.

B_3 will shift to B_2.

AACSB: Reflective Thinking

Asarta - Test Bank... #66

Blooms: Understand

Difficulty: 2 Medium

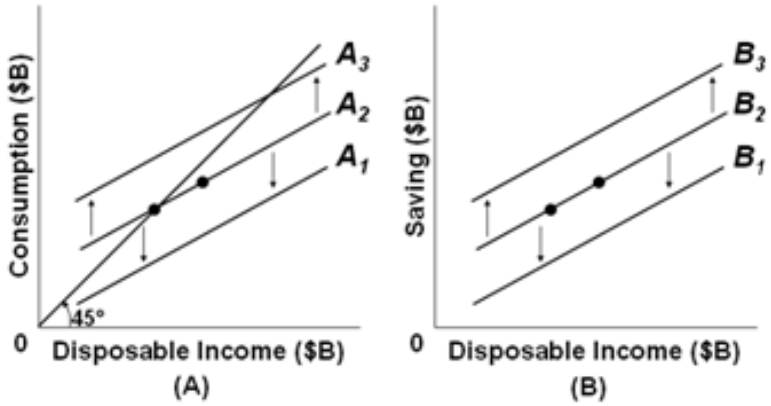
Learning Objective: Illustrate the relationship between savings and income.

Section: Savings and Income

Topic: The Income-Consumption and Income-Saving Relationships

67.

Use the following figures to answer the next question.



Refer to the above figures with consumption schedules in figure (A) and saving schedules in figure (B), which correspond to each other across different levels of disposable income. If in figure (A), consumption increases along line A_2,then in figure (B) there would be a

A.

shift from line B_2 to B_3.

B.

shift from line B_2 to B_1.

C.

movement down along line B_2.

D.

movement up along line B_2.

AACSB: Reflective Thinking

Asarta - Test Bank... #67

Blooms: Understand

Difficulty: 1 Easy

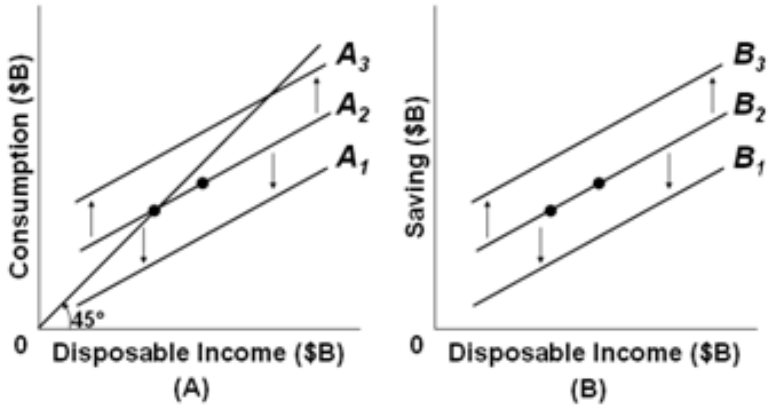
Learning Objective: Illustrate the relationship between savings and income.

Section: Savings and Income

Topic: The Income-Consumption and Income-Saving Relationships

68.

Use the following figures to answer the next question.



Refer to the above figures with consumption schedules in figure (A) and saving schedules in figure (B), which correspond to each other across different levels of disposable income. If in figure (A), consumption shifts from A_2 to A_3 because of a change in taxes, then in figure (B) line

A.

B_2 will shift to B_3.

B.

B_1 will shift to B_2.

C.

B_2 will shift to B_1.

D.

B_3 will shift to B_2.

AACSB: Reflective Thinking
Asarta - Test Bank... #68
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: Illustrate the relationship between savings and income.
Section: Savings and Income
Topic: The Income-Consumption and Income-Saving Relationships

69. The Great Recession of 2007-2009 altered the prior behavior of consumers in the economy by

A. shifting the consumption schedule up.

B. shifting the consumption schedule down.

C. shifting the saving schedule down.

D. moving the economy down along a stable consumption schedule.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #69
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: Illustrate the relationship between savings and income.
Section: Savings and Income
Topic: The Income-Consumption and Income-Saving Relationships

70.

The so-called Paradox of Thrift that became quite obvious in the Great Recession of 2007-2009 refers to all of the following, *except*

A.
saving may be virtuous for the individual, but it could be bad for the economy as a whole.

B.
consumers' thriftiness may help long-term growth but ironically reduces current output.

C.
in trying to spend less now, consumers will end up spending more later on.

D.
as individuals try to save more, the whole group may end up saving less as total income declines.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #70
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: Illustrate the relationship between savings and income.
Section: Savings and Income
Topic: The Income-Consumption and Income-Saving Relationships

71. The Paradox of Thrift highlights the idea that

A. saving more is good for the economy in the short run.

B. saving more can be bad for the economy during a recession.

C. in spending more, households will end up saving less.

D. in spending more, workers may end up losing their jobs.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #71
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: Illustrate the relationship between savings and income.
Section: Savings and Income
Topic: The Income-Consumption and Income-Saving Relationships

72. Two basic determinants of investment spending are

A. consumer spending and government spending.

B. expected returns and real interest rates.

C. general price level and the level of output.

D. domestic trade and international trade.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #72
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between the interest rate and investment demand.
Section: The Investment Demand Curve
Topic: The Interest-Rate-Investment Relationship

73. An investment demand curve shows the varying amounts of investment that would be undertaken at various levels of

A. the average price in the economy.
B. consumer spending.
C. personal saving.
D. the real interest rate.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #73
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between the interest rate and investment demand.
Section: The Investment Demand Curve
Topic: The Interest-Rate-Investment Relationship

74. Given the expected rate of return on all possible investment opportunities in the economy, a(n)

A. increase in the real rate of interest will tend to increase the level of investment.
B. decrease in the real rate of interest will tend to increase the level of investment.
C. decrease in the real rate of interest will tend to decrease the level of investment.
D. change in the real interest rate will have no impact on the level of investment.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #74
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between the interest rate and investment demand.
Section: The Investment Demand Curve
Topic: The Interest-Rate-Investment Relationship

75. If the real interest rate increases

A. the investment demand curve will shift to the right.

B. the investment demand curve will shift to the left.

C. there will be a movement upward along the investment demand curve.

D. there will be a movement downward along the investment demand curve.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #75
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between the interest rate and investment demand.
Section: The Investment Demand Curve
Topic: The Interest-Rate-Investment Relationship

76. Suppose that new computer software for accounting and analysis at a business has a useful life of only one year and costs $200,000 before it needs to be upgraded to a new version. The revenue generated by this software is expected to be $250,000. The expected rate of return from this new computer software is

A. 11%.

B. 20%.

C. 25%.

D. 80%.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #76
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: Illustrate the relationship between the interest rate and investment demand.
Section: The Investment Demand Curve
Topic: The Interest-Rate-Investment Relationship

77. Assume there are no investment projects that will produce an expected rate of return of 8% or more. There are, however, $2 billion worth of investment projects with an expected rate of return at 7%, an additional $2 billion for every drop of the interest rate by 1%. If the real interest rate is 3% in this economy, the cumulative amount of investment at the 3% or higher rate of return is

A. $10 billion.

B. $8 billion.

C. $6 billion.

D. $4 billion.

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Asarta - Test Bank... #77

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: Illustrate the relationship between the interest rate and investment demand.

Section: The Investment Demand Curve

Topic: The Interest-Rate-Investment Relationship

78. A firm invests in a new machine that costs $2,000 a year but is expected to produce an increase in total revenue of $2,200 a year. The current real rate of interest is 8%. The firm should

A. undertake the investment because the expected rate of return of 12% is greater than the real rate of interest.

B. undertake the investment because the expected rate of return of 10% is greater than the real rate of interest.

C. undertake the investment because the expected rate of return of 9% is greater than the real rate of interest.

D. not undertake the investment because the expected rate of return of 7% is less than the real rate of interest.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #78
Blooms: Understand
Difficulty: 3 Hard
Learning Objective: Illustrate the relationship between the interest rate and investment demand.
Section: The Investment Demand Curve
Topic: The Interest-Rate-Investment Relationship

79. A firm invests in a new machine that costs $5,000 a year but is expected to produce an increase in total revenue of $5,200 a year. The current real rate of interest is 7%. The firm should

A. undertake the investment because the expected rate of return of 10% is greater than the real rate of interest.
B. undertake the investment because the expected rate of return of 8% is greater than the real rate of interest.
C. not undertake the investment because the expected rate of return of 6% is less than the real rate of interest.
D. not undertake the investment because the expected rate of return of 4% is less than the real rate of interest.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #79
Blooms: Understand
Difficulty: 3 Hard
Learning Objective: Illustrate the relationship between the interest rate and investment demand.
Section: The Investment Demand Curve
Topic: The Interest-Rate-Investment Relationship

80.

Use the following cumulative investment schedule to answer the next question.

Expected Rate of Return	Cumulative Amount of Investment (in billions)
22%	$110
10	150
16	180
10	210
5	295
2	380

According to the cumulative investment table above

A. $150 billion worth of investments have expected rates of return exactly equal to 20%.

B. $150 billion worth of investments have expected rates of return of 20% or lower.

C. $40 billion worth of investments have expected rates of return between 20% and 22%.

D. $260 billion worth of investments have expected rates of return higher than 20%.

AACSB: Reflective Thinking

Asarta - Test Bank... #80

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: Illustrate the relationship between the interest rate and investment demand.

Section: The Investment Demand Curve

Topic: The Interest-Rate-Investment Relationship

81.

Use the following cumulative investment schedule to answer the next question.

Expected Rate of Return	Cumulative Amount of Investment (in billions)
22%	$110
10	150
16	180
10	210
5	295
2	380

According to the cumulative investment table above, if the real interest rate falls from 20% to 16%, then

A. $180 billion of additional investments will be undertaken.

B. $330 billion of total investments will be undertaken.

C. $30 billion of additional investments will be undertaken.

D. $440 billion of total investments will be undertaken.

AACSB: Reflective Thinking

Asarta - Test Bank... #81

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: Illustrate the relationship between the interest rate and investment demand.

Section: The Investment Demand Curve

Topic: The Interest-Rate-Investment Relationship

82.

The investment demand curve is drawn with the amount of investment on the

A.

vertical axis and disposable income on the horizontal axis.

B.

horizontal axis and disposable income on the vertical axis.

C.

horizontal axis and the expected rate of return and interest rate on the vertical axis.

D.

vertical axis and the expected rate of return and interest rate on the horizontal axis.

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Asarta - Test Bank... #82

Blooms: Understand

Difficulty: 1 Easy

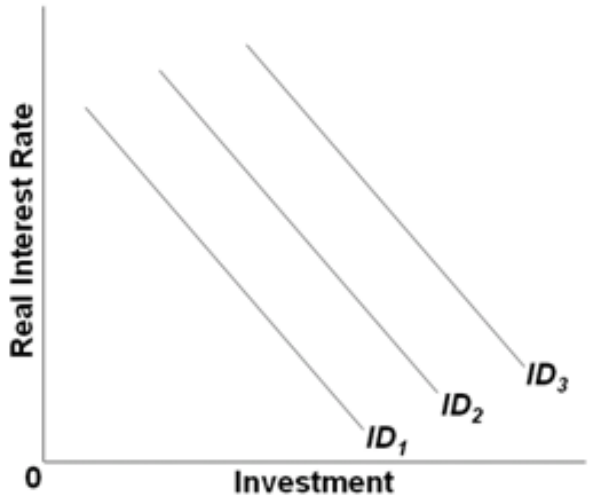
Learning Objective: Illustrate the relationship between the interest rate and investment demand.

Section: The Investment Demand Curve

Topic: The Interest-Rate-Investment Relationship

83.

Use the following graph on the investment demand for capital goods to answer the next question.



Which of the following would shift the investment demand curve from ID_2 to ID_1?

A.
a falling real interest rate

B.
a rising real interest rate

C.
increasing operating costs for capital goods

D.
decreasing operating costs for capital goods

AACSB: Reflective Thinking

Asarta - Test Bank... #83

Blooms: Understand

Difficulty: 2 Medium

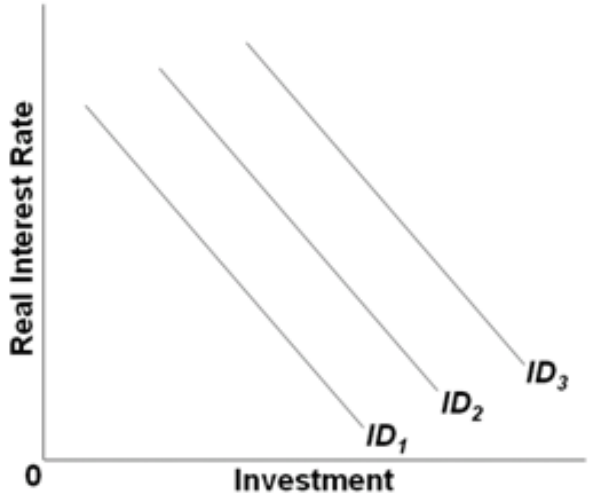
Learning Objective: Illustrate the relationship between the interest rate and investment demand.

Section: The Investment Demand Curve

Topic: The Interest-Rate-Investment Relationship

84.

Use the following graph on the investment demand for capital goods to answer the next question.



Which of the following would shift the investment demand curve from ID_2 to ID_3?

A. A lower real interest rate.

B. Rising maintenance costs of investment goods.

C. Increasing business taxes.

D. Falling stock of capital resources while output is high.

AACSB: Reflective Thinking

Asarta - Test Bank... #84

Blooms: Understand

Difficulty: 2 Medium

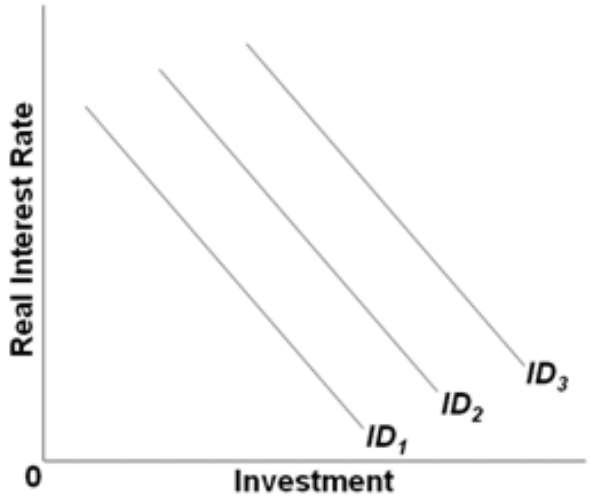
Learning Objective: Illustrate the relationship between the interest rate and investment demand.

Section: The Investment Demand Curve

Topic: The Interest-Rate-Investment Relationship

85.

Use the following graph on the investment demand for capital goods to answer the next question.



Which of the following would shift the investment demand curve from ID_2 to ID_1?

A. Rising real interest rates.

B. Increasing business taxes.

C. Lower acquisition cost of capital goods.

D. Higher expected rates of return on investment.

AACSB: Reflective Thinking

Asarta - Test Bank... #85

Blooms: Understand

Difficulty: 2 Medium

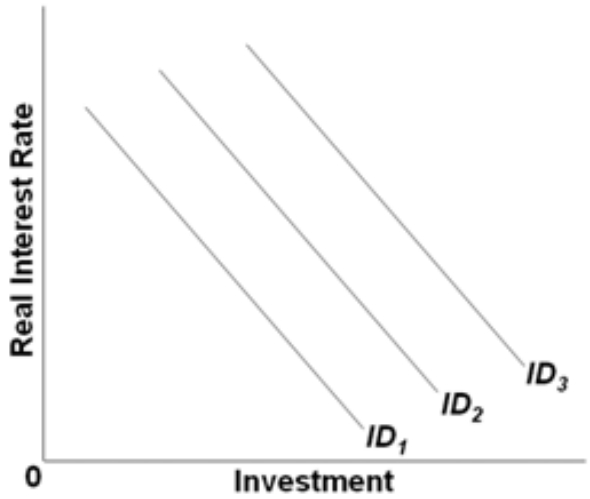
Learning Objective: Illustrate the relationship between the interest rate and investment demand.

Section: The Investment Demand Curve

Topic: The Interest-Rate-Investment Relationship

86.

Use the following graph on the investment demand for capital goods to answer the next question.



Which of the following would shift the investment demand curve from ID_2 to ID_3?

A. Greater inventories of capital goods.

B. Higher business taxes on capital goods.

C. A more rapid rate of technological progress.

D. Lower expected rates of return on investment in capital goods.

AACSB: Reflective Thinking

Asarta - Test Bank... #86

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: Illustrate the relationship between the interest rate and investment demand.

Section: The Investment Demand Curve

Topic: The Interest-Rate-Investment Relationship

87. Which of the following factors would decrease investment demand?

A. A decrease in business taxes.

B. An increase in the cost of acquiring capital goods.

C. An increase in the rate of technological change.

D. A decrease in the stock of capital goods on hand.

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Asarta - Test Bank... #87

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: Illustrate the relationship between the interest rate and investment demand.

Section: The Investment Demand Curve

Topic: The Interest-Rate-Investment Relationship

88. If businesses feel more optimistic about the state of the economy, then this change is likely to

A. cause a movement up the investment demand curve.

B. cause a movement down the investment demand curve.

C. shift the investment demand curve to the left.

D. shift the investment demand curve to the right.

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Asarta - Test Bank... #88

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: Illustrate the relationship between the interest rate and investment demand.

Section: The Investment Demand Curve

Topic: The Interest-Rate-Investment Relationship

89. The investment demand curve will shift to the left as the result of

A. business pessimism about future economic conditions.

B. limited available productive capacity.

C. an increase in the interest rate.

D. a decrease in business taxes.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #89
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between the interest rate and investment demand.
Section: The Investment Demand Curve
Topic: The Interest-Rate-Investment Relationship

90. Which of the following factors does not help explain the instability of investment?

A. Business expectations can quickly change for unpredictable reasons.

B. Innovations in the economy occur quite irregularly.

C. Profits of firms are highly variable from one period to the next.

D. Purchases of capital goods are usually nondiscretionary and cannot be postponed.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #90
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between the interest rate and investment demand.
Section: The Investment Demand Curve
Topic: The Interest-Rate-Investment Relationship

91. The variability of business profits

A. helps explain the instability of investments over time.

B. does not affect investment spending, which depends on expected profits not current profits.

C. explains why the durability of capital goods is variable.

D. causes the variations in consumption spending over time.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #91
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between the interest rate and investment demand.
Section: The Investment Demand Curve
Topic: The Interest-Rate-Investment Relationship

92. Which factor explains the variability of investment?

A. The regularity of innovation.

B. The durability of capital goods.

C. The constancy of expectations.

D. The constancy of profits.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #92
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between the interest rate and investment demand.
Section: The Investment Demand Curve
Topic: The Interest-Rate-Investment Relationship

93. During the Great Recession of 2007-2009, real interest rates

A. declined to about zero, and investments increased sharply.

B. declined to about zero, and investments also declined sharply.

C. increased sharply, and investments declined significantly.

D. increased sharply, and investments also rose significantly.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #93
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: Illustrate the relationship between the interest rate and investment demand.
Section: The Investment Demand Curve
Topic: The Interest-Rate-Investment Relationship

94. During the Great Recession of 2007-2009, the investment demand curve shifted

A. left because of very low interest rates.

B. right because of very low interest rates.

C. left because of declines in expected returns.

D. right because of reductions in tax rates.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #94
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: Illustrate the relationship between the interest rate and investment demand.
Section: The Investment Demand Curve
Topic: The Interest-Rate-Investment Relationship

95. The investment schedule shows the

A. inverse relationship between the expected rate of return and the quantity of investment demanded.
B. positive relationship between the expected rate of return and the quantity of investment demanded.
C. amounts business firms collectively intend to invest at each possible level of GDP.
D. rate of interest that business firms must pay when they make investments in capital goods.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #95
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between investment, government purchases, net exports, and real GDP.
Section: The Investment, Government Expenditures, and Net Exports Schedules
Topic: Aggregate Expenditures

96. The difference between the investment demand curve and the investment schedule is that the former shows a(n)

A. direct relationship between investment and interest rate, while the latter shows no correlation between investment and income.
B. inverse relationship between investment and interest rate, while the latter shows no correlation between investment and income.
C. direct relationship between investment and income, while the latter shows no correlation between investment and interest rate.
D. inverse relationship between investment and income, while the latter shows no correlation between investment and interest rate.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

Asarta - Test Bank... #96

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: Illustrate the relationship between investment, government purchases, net exports, and real GDP.

Section: The Investment, Government Expenditures, and Net Exports Schedules

Topic: Aggregate Expenditures

97. Which of the following is graphed as a horizontal line across levels of real GDP in the aggregate expenditures model?

A. the saving schedule

B. the investment schedule

C. the consumption schedule

D. the investment demand curve

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Asarta - Test Bank... #97

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: Illustrate the relationship between investment, government purchases, net exports, and real GDP.

Section: The Investment, Government Expenditures, and Net Exports Schedules

Topic: Aggregate Expenditures

98. In the aggregate expenditure model, which of the following variables is assumed to be independent of real GDP?

A. profit

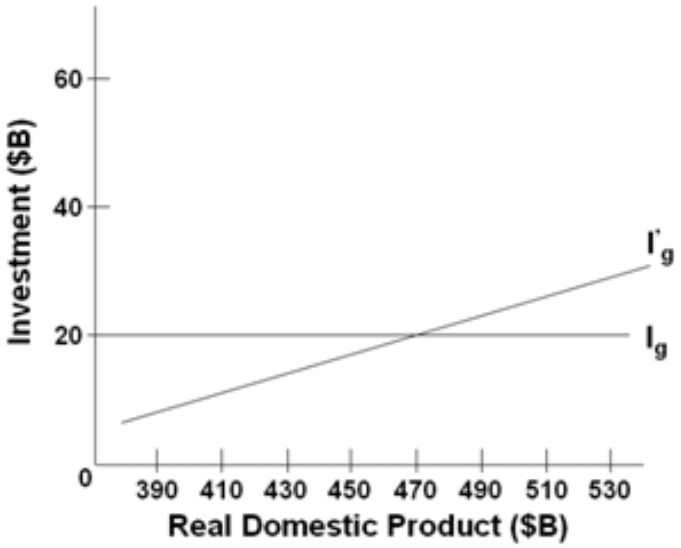
B. saving

C. investment

D. consumption

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #98
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between investment, government purchases, net exports, and real GDP.
Section: The Investment, Government Expenditures, and Net Exports Schedules
Topic: Aggregate Expenditures

99. Use the following graph to answer the next question.



The graph above indicates that

A.
I'_g is an investment schedule that assumes that the investment plans of business are independent of the current level of income, whereas I_g does not.

B.
I_g is an investment schedule that assumes that the investment plans of business are independent of the current level of income, whereas I'_g does not.

C.
the equilibrium level of investment is determined at the point where investment schedule I'_g crosses the I_g investment schedule.

D.
investment schedule I'_g shows the inverse relationship between real domestic product and investment.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: Illustrate the relationship between investment, government purchases, net exports, and real GDP.

Section: The Investment, Government Expenditures, and Net Exports Schedules

Topic: Aggregate Expenditures

100. A rightward shift of the investment demand curve will

A. shift the investment schedule downward.

B. shift the investment schedule upward.

C. decrease the quantity of investment.

D. decrease the real rate of interest.

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Asarta - Test Bank... #100

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: Illustrate the relationship between investment, government purchases, net exports, and real GDP.

Section: The Investment, Government Expenditures, and Net Exports Schedules

Topic: Consumption and Investment Schedules

101. If the real interest rate falls, then the

A. investment schedule will shift upward.

B. investment schedule will shift downward.

C. point moves along the investment schedule to the right.

D. consumption schedule will shift downward.

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Asarta - Test Bank... #101

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: Illustrate the relationship between investment, government purchases, net exports, and real GDP.

Section: The Investment, Government Expenditures, and Net Exports Schedules

Topic: Aggregate Expenditures

102. If the expected rate of return on investment decreases, then most likely the

A. investment schedule will shift upward.

B. investment schedule will shift downward.

C. consumption schedule will shift upward.

D. consumption schedule will shift downward.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #102
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between investment, government purchases, net exports, and real GDP.
Section: The Investment, Government Expenditures, and Net Exports Schedules
Topic: Aggregate Expenditures

103. Net exports are negative when

A. net exports exceed imports.

B. depreciation exceeds exports.

C. exports exceed imports.

D. imports exceed exports.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #103
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between investment, government purchases, net exports, and real GDP.
Section: The Investment, Government Expenditures, and Net Exports Schedules
Topic: Aggregate Expenditures

104. Over time, an increase in the real output and incomes of the trading partners of the United States will most likely

A. increase U.S. exports.

B. decrease U.S. exports.

C. increase imports of the U.S.

D. decrease imports of the U.S.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #104
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: Illustrate the relationship between investment, government purchases, net exports, and real GDP.
Section: The Investment, Government Expenditures, and Net Exports Schedules
Topic: Aggregate Expenditures

105. Which event would most likely decrease an economy's exports?

A. A decline in the tariff on products imported from abroad.

B. An increase in the prosperity of trading partners for this economy.

C. An appreciation of the nation's currency relative to foreign currencies.

D. A depreciation of the nation's currency relative to foreign currencies.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #105
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: Illustrate the relationship between investment, government purchases, net exports, and real GDP.
Section: The Investment, Government Expenditures, and Net Exports Schedules
Topic: Aggregate Expenditures

106. What is the likely result from a depreciation of a nation's currency when its economy is already operating at its full-employment level of output?

A. Net exports fall and contribute to demand-pull inflation.

B. Net exports rise and contribute to demand-pull inflation.

C. Net exports fall, but equilibrium GDP rises.

D. Net exports rise, but equilibrium GDP falls.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #106
Blooms: Understand
Difficulty: 3 Hard
Learning Objective: Illustrate the relationship between investment, government purchases, net exports, and real GDP.
Section: The Investment, Government Expenditures, and Net Exports Schedules
Topic: Aggregate Expenditures

107. In the aggregate expenditures model of the economy, a downward shift in aggregate expenditures can be caused by a decrease in

A. government spending or an increase in taxes.

B. taxes or an increase in government spending.

C. interest rates or a decrease in taxes.

D. saving or an increase in government spending.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #107
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between investment, government purchases, net exports, and real GDP.
Section: The Investment, Government Expenditures, and Net Exports Schedules
Topic: Aggregate Expenditures

108. A tax-cut will have a greater effect on equilibrium GDP if the

A. marginal propensity to consume is smaller.

B. marginal propensity to save is smaller.

C. marginal propensity to save is larger.

D. average propensity to consume is larger.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #108
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Illustrate the relationship between investment, government purchases, net exports, and real GDP.
Section: The Investment, Government Expenditures, and Net Exports Schedules
Topic: Aggregate Expenditures

109. In a private closed economy, the equilibrium condition for the economy is

A. AE = C + Ig = GDP.

B. AE = G + Ig = GDP.

C. AE = C + Ig + G = GDP.

D. C + Ig + G + NX = GDP.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #109
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.
Section: The Aggregate Expenditures Model Equilibriums
Topic: Equilibrium in the Aggregate Expenditures Model

110.

Use the following table to answer the next question.

All figures below are in billions of dollars.

Domestic Output or Income (GDP = DI)	Consumption
$240	$244
250	250
260	256
270	262
280	268
290	274
300	280
310	286
320	292

When there is no investment in this private closed economy, the equilibrium level of GDP will

be

A. $240 billion.

B. $250 billion.

C. $260 billion.

D. $270 billion.

AACSB: Reflective Thinking

Asarta - Test Bank... #110

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.

Section: The Aggregate Expenditures Model Equilibriums

Topic: Equilibrium in the Aggregate Expenditures Model

111.

Use the following table to answer the next question. All figures below are in billions of dollars.

Domestic Output or Income (GDP = DI)	Consumption
$240	$244
250	250
260	256
270	262
280	268
290	274
300	280
310	286
320	292

If gross investment is $12 billion, the equilibrium level of GDP will be

A. $260 billion.

B. $270 billion.

C. $280 billion.

D. $290 billion.

AACSB: Reflective Thinking

Asarta - Test Bank... #111

Blooms: Understand

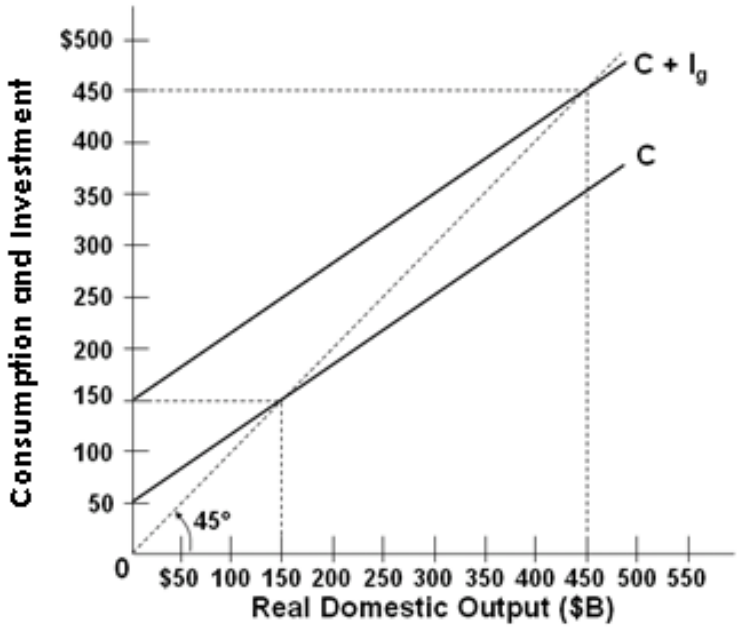
Difficulty: 2 Medium

Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.

Section: The Aggregate Expenditures Model Equilibriums

Topic: Equilibrium in the Aggregate Expenditures Model

112. Use the following graph for a private closed economy to answer the next question.



In this economy, investment is

A. $50 billion.

B. $100 billion.

C. $150 billion.

D. $200 billion.

AACSB: Reflective Thinking

Asarta - Test Bank... #112

Blooms: Understand

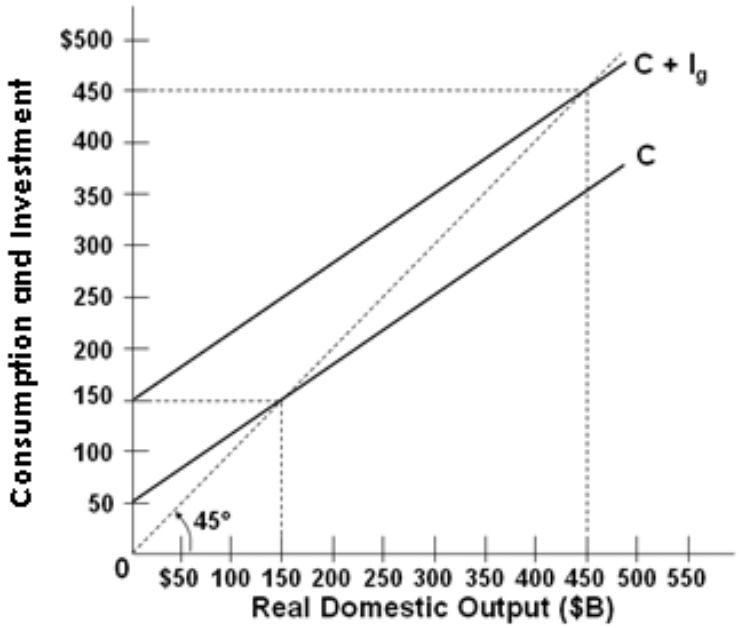
Difficulty: 2 Medium

Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.

Section: The Aggregate Expenditures Model Equilibriums

Topic: Equilibrium in the Aggregate Expenditures Model

113. Use the following graph for a private closed economy to answer the next question.



The equilibrium level of GDP in this economy is

A. $150 billion.

B. $250 billion.

C. $350 billion.

D. $450 billion.

AACSB: Reflective Thinking

Asarta - Test Bank... #113

Blooms: Understand

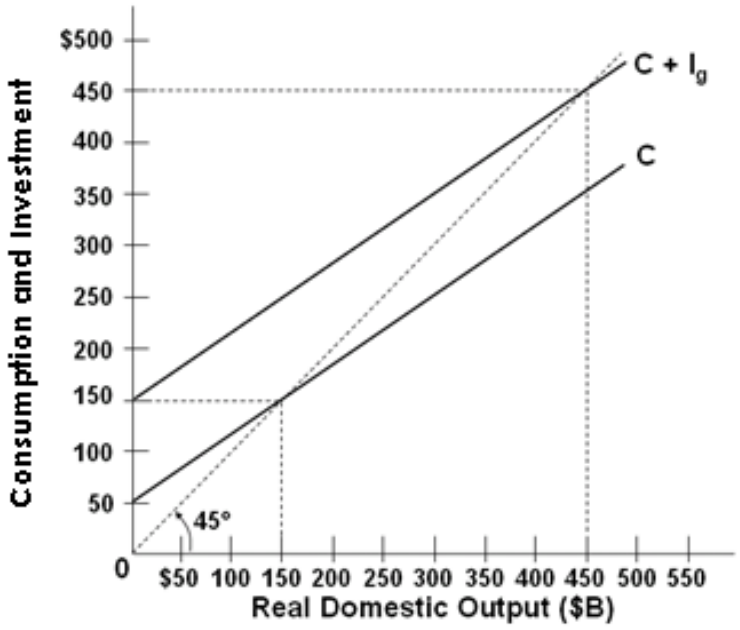
Difficulty: 2 Medium

Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.

Section: The Aggregate Expenditures Model Equilibriums

Topic: Equilibrium in the Aggregate Expenditures Model

114. Use the following graph for a private closed economy to answer the next question.



At the equilibrium level of GDP, saving will be

A. $50 billion.

B. $100 billion.

C. $150 billion.

D. undeterminable from the information given.

AACSB: Reflective Thinking

Asarta - Test Bank... #114

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.

Section: The Aggregate Expenditures Model Equilibriums

Topic: Equilibrium in the Aggregate Expenditures Model

115.

Use the following table with data for a private (no government) closed economy to answer the next question.

All figures are in billions of dollars.

Domestic Output or Income (GDP = DI)	Consumption
$540	$540
560	555
580	570
600	585
620	600
640	615
660	630

If planned investment is $25 billion, the equilibrium level of GDP will be

A. $600 billion.

B. $620 billion.

C. $640 billion.

D. $660 billion.

AACSB: Reflective Thinking

Asarta - Test Bank... #115

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.

Section: The Aggregate Expenditures Model Equilibriums

Topic: Equilibrium in the Aggregate Expenditures Model

116.

Use the following table with data for a private closed economy to answer the next question.

All figures are in billions of dollars.

Expected Rate of Return	Investment	Consumption	GDP
10%	$ 0	$400	$ 400
8	100	500	600
6	200	600	800
4	300	700	1,000
2	400	800	1,200
0	500	900	1,400

If the real rate of interest is 2%, then the equilibrium level of GDP will be

A. $800 billion.

B. $1,000 billion.

C. $1,200 billion.

D. $1,400 billion.

AACSB: Reflective Thinking

Asarta - Test Bank... #116

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.

Section: The Aggregate Expenditures Model Equilibrium

Topic: Equilibrium in the Aggregate Expenditures Model

117.

Use the following table with data for a private closed economy to answer the next question.

All figures are in billions of dollars.

Expected Rate of Return	Investment	Consumption	GDP
10%	$ 0	$400	$ 400
8	100	500	600
6	200	600	800
4	300	700	1,000
2	400	800	1,200
0	500	900	1,400

An increase in the real interest rate from 2% to 6% will

A. decrease the equilibrium level of GDP by $200 billion.

B. decrease the equilibrium level of GDP by $300 billion.

C. decrease the equilibrium level of GDP by $400 billion.

D. increase the equilibrium level of GDP by $400 billion.

AACSB: Reflective Thinking
Asarta - Test Bank... #117
Blooms: Understand
Difficulty: 3 Hard
Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.
Section: The Aggregate Expenditures Model Equilibriums
Topic: Equilibrium in the Aggregate Expenditures Model

118. Saving is $15 billion at the $125 billion equilibrium level of output in a closed, private economy. Actual investment must be

A. less than saving.

B. greater than saving.

C. equal to $15 billion.

D. equal to $125 billion.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #118
Blooms: Understand
Difficulty: 3 Hard
Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.
Section: The Aggregate Expenditures Model Equilibriums
Topic: Equilibrium in the Aggregate Expenditures Model

119. Other things being equal, a decrease in an economy's exports will

A. increase domestic aggregate expenditures and the equilibrium level of GDP.

B. decrease domestic aggregate expenditures and the equilibrium level of GDP.

C. have no effect on domestic GDP because imports will offset the change in exports.

D. increase the amount of imports consumed by the private sector.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #119
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.
Section: The Aggregate Expenditures Model Equilibriums
Topic: Equilibrium in the Aggregate Expenditures Model

120. Other things constant, if domestic consumers purchase fewer foreign goods at each level of GDP, in the short run

A. GDP will rise.

B. GDP will fall.

C. foreign countries' GDP will rise.

D. there will be no change in GDP in this country.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #120
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.
Section: The Aggregate Expenditures Model Equilibriums
Topic: Equilibrium in the Aggregate Expenditures Model

121.

Use the following table to answer the next question.

The table shows a private open economy. All figures are in billions of dollars.

Real GDP	C + I	Net Exports
$400	$420	$20
450	460	20
500	500	20
550	540	20
600	580	20
650	620	20
700	660	20

The equilibrium real GDP is

A. $550.

B. $600.

C. $650.

D. $700.

AACSB: Reflective Thinking

Asarta - Test Bank... #121

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.

Section: The Aggregate Expenditures Model Equilibriums

Topic: Equilibrium in the Aggregate Expenditures Model

122.

Use the following table with data for a private open economy to answer the next question.

All figures are in billions of dollars.

Real GDP	C + I	Net Exports
$400	$420	$20
450	460	20
500	500	20
550	540	20
600	580	20
650	620	20
700	660	20

If net exports increased by $10 billion at each level of GDP, the equilibrium real GDP would be

A.
not determinable using this table.

B.
$610.

C.
$650.

D.
$700.

AACSB: Reflective Thinking
Asarta - Test Bank... #122
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.
Section: The Aggregate Expenditures Model Equilibriums
Topic: Equilibrium in the Aggregate Expenditures Model

123.

Use the following table with data for a private open economy to answer the next question.

All figures are in billions of dollars.

Real GDP	C + I	Net Exports
$400	$420	$20
450	460	20
500	500	20
550	540	20
600	580	20
650	620	20
700	660	20

If the investment in this economy is independent of income GDP, then a $10 increase in its net exports would increase its equilibrium real GDP by

A. $25.

B. $50.

C. $100.

D. $200.

AACSB: Reflective Thinking
Asarta - Test Bank... #123
Blooms: Understand
Difficulty: 3 Hard
Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.
Section: The Aggregate Expenditures Model Equilibriums
Topic: Equilibrium in the Aggregate Expenditures Model

124. Which of the following statements is correct?

A. An increase in exports will tend to increase, and an increase in imports will tend to decrease, the equilibrium GDP.

B. An increase in exports and an increase in imports will both tend to increase the equilibrium GDP.

C. An increase in exports and an increase in imports will both tend to decrease the equilibrium GDP.

D. An increase in exports will tend to decrease, and an increase in imports will tend to increase, the equilibrium GDP.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #124
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.
Section: The Aggregate Expenditures Model Equilibriums
Topic: Equilibrium in the Aggregate Expenditures Model

125.

Use the following table to answer the next question.

All figures in the table are in billions.

GDP	C + I	Exports	Imports
$500	$525	$15	$10
550	560	15	10
600	595	15	10
650	630	15	10
700	665	15	10
750	700	15	10

The equilibrium level of GDP in this private open economy is

A. $550 billion.

B. $600 billion.

C. $650 billion.

D. $700 billion.

AACSB: Reflective Thinking

Asarta - Test Bank... #125

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.

Section: The Aggregate Expenditures Model Equilibriums

Topic: Equilibrium in the Aggregate Expenditures Model

126.

Use the following table to answer the next question.

All figures in the table below are in billions.

GDP	C + I	Exports	Imports
$500	$525	$15	$10
550	560	15	10
600	595	15	10
650	630	15	10
700	665	15	10
750	700	15	10

If exports increased by $15 billion at each level of GDP, all other factors constant, then the equilibrium level of GDP would be

A. $550 billion.

B. $600 billion.

C. $650 billion.

D. $700 billion.

AACSB: Reflective Thinking

Asarta - Test Bank... #126

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.

Section: The Aggregate Expenditures Model Equilibriums

Topic: Equilibrium in the Aggregate Expenditures Model

127.

Use the following table to answer the next question.

All figures in the table below are in billions of dollars.

GDP	Aggregate Expenditures (Closed Economy)	Exports	Imports
$400	$440	$50	$60
450	480	50	60
500	520	50	60
550	560	50	60
600	600	50	60
650	640	50	60
700	680	50	60

If this economy were an open economy, the equilibrium GDP will be

A. $650 billion.

B. $600 billion.

C. $550 billion.

D. $500 billion.

AACSB: Reflective Thinking

Asarta - Test Bank... #127

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.

Section: The Aggregate Expenditures Model Equilibriums

Topic: Equilibrium in the Aggregate Expenditures Model

128.

Use the following table to answer the next question.

All figures in the table below are in billions of dollars.

GDP	Aggregate Expenditures (Closed Economy)	Exports	Imports
$400	$440	$50	$60
450	480	50	60
500	520	50	60
550	560	50	60
600	600	50	60
650	640	50	60
700	680	50	60

If exports should decrease by $20 billion at each level of GDP, other factors constant, then the equilibrium GDP for the economy will be

A. $650 billion.

B. $550 billion.

C. $500 billion.

D. $450 billion.

AACSB: Reflective Thinking
Asarta - Test Bank... #128
Blooms: Understand
Difficulty: 3 Hard
Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.
Section: The Aggregate Expenditures Model Equilibriums
Topic: Equilibrium in the Aggregate Expenditures Model

129. In the aggregate expenditures model of the economy, a downward shift in aggregate expenditures can be caused by a decrease in

A. government spending or an increase in taxes.

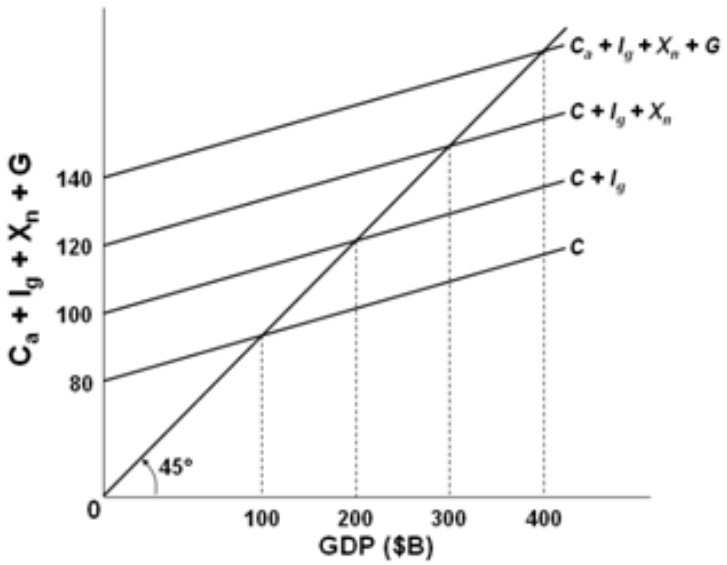
B. taxes or an increase in government spending.

C. interest rates or a decrease in taxes.

D. saving or an increase in government spending.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #129
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.
Section: The Aggregate Expenditures Model Equilibriums
Topic: Equilibrium in the Aggregate Expenditures Model

130. Use the following graph to answer the next question.



In the above graph it is assumed that investment, net exports, and government expenditures

A. are all increasing.

B. vary directly with GDP.

C. vary inversely with GDP.

D. are independent of GDP.

AACSB: Reflective Thinking

Asarta - Test Bank... #130

Blooms: Understand

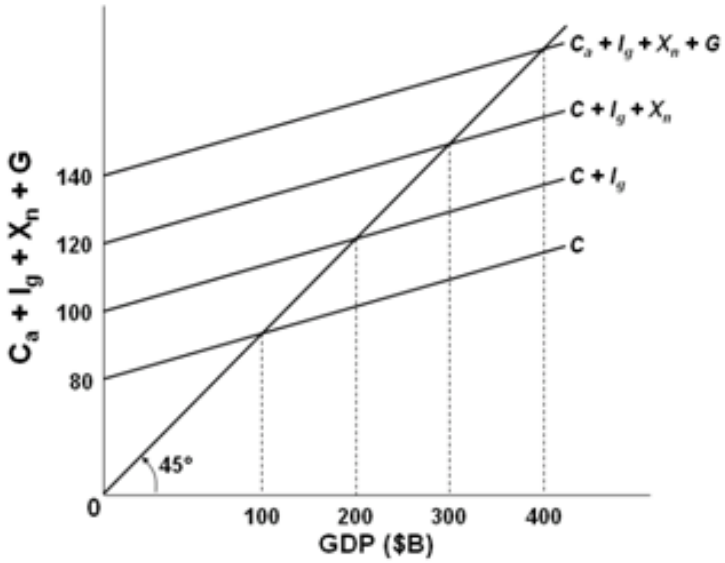
Difficulty: 2 Medium

Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.

Section: The Aggregate Expenditures Model Equilibriums

Topic: Equilibrium in the Aggregate Expenditures Model

131. Use the following graph to answer the next question.



If this economy was an open economy without a government sector, the level of GDP would be

A. $100 billion.

B. $200 billion.

C. $300 billion.

D. $400 billion.

AACSB: Reflective Thinking

Asarta - Test Bank... #131

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.

Section: The Aggregate Expenditures Model Equilibriums

Topic: Equilibrium in the Aggregate Expenditures Model

132.

Use the following table to answer the next question.

The table shows a consumption schedule. All figures are in billions of dollars.

GDP	Consumption
$600	$580
640	610
680	640
720	670
760	700

If planned investment was $20 billion, government purchases of goods and services were $20 billion, and taxes and net exports were zero, then the equilibrium level of GDP would be

A. $600 billion.

B. $640 billion.

C. $680 billion.

D. $720 billion.

AACSB: Reflective Thinking

Asarta - Test Bank... #132

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.

Section: The Aggregate Expenditures Model Equilibriums

Topic: Equilibrium in the Aggregate Expenditures Model

133.

Use the following table showing the consumption schedule for a hypothetical economy to answer the next question.

All figures are in billions of dollars.

GDP	Consumption
$600	$590
610	598
620	606
630	614
640	622
650	630
660	638

If planned investments were fixed at $16, taxes were zero, government purchases of goods and services were zero, and net exports were zero, then equilibrium real GDP would be $630 initially. If government purchases were then raised from $0 to $4, other things constant, then the equilibrium real GDP would become

A. $660.

B. $630.

C. $640.

D. $650.

AACSB: Reflective Thinking

Asarta - Test Bank... #133

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.

Section: The Aggregate Expenditures Model Equilibrium

Topic: Equilibrium in the Aggregate Expenditures Model

134.

(p. $$pageTag$$) The following data show levels of planned variables for an economy. I = investment, S = saving after taxes, G = government spending, T = taxation, NX = exports, and M = imports. What is the equilibrium level of domestic output?

	I	S	G	T	NX	M
A	22	29	43	35	46	40
B	24	34	45	39	48	44
C	26	38	48	42	50	47
D	28	42	51	47	53	51

A.
choice A

B.
choice B

C.
choice C

D.
choice D

AACSB: Reflective Thinking

Asarta - Test Bank... #134

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.

Section: The Aggregate Expenditures Model Equilibriums

Topic: Equilibrium in the Aggregate Expenditures Model

135.

Use the following table showing the consumption schedule for an economy to answer the next question.

All figures are in billions of dollars.

GDP	Consumption
$440	$450
490	490
540	530
590	570
640	610

If gross investment is $34 billion, net exports are zero, and there is a lump-sum tax of $30 billion at all levels of GDP, then the after-tax equilibrium level of GDP will be

A. $490 billion.

B. $540 billion.

C. $590 billion.

D. $640 billion.

AACSB: Reflective Thinking

Asarta - Test Bank... #135

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.

Section: The Aggregate Expenditures Model Equilibriums

Topic: Equilibrium in the Aggregate Expenditures Model

136.

Use the following table showing the consumption schedule for an economy to answer the next question.

All figures are in billions of dollars.

GDP	Consumption
$440	$450
490	490
540	530
590	570
640	610

Given the level of investment at $34 billion, zero net exports, and a lump-sum tax of $30 billion, the addition of government expenditures of $20 billion at each level of GDP will result in an equilibrium GDP of

A. $490 billion.

B. $540 billion.

C. $590 billion.

D. $640 billion.

AACSB: Reflective Thinking
Asarta - Test Bank... #136
Blooms: Understand
Difficulty: 3 Hard
Learning Objective: Show how equilibrium GDP is obtained using the aggregate expenditures model.
Section: The Aggregate Expenditures Model Equilibriums
Topic: Equilibrium in the Aggregate Expenditures Model

137. The multiplier effect relates changes in

A. the price level to changes in real GDP.

B. the interest rate to changes in investment.

C. disposable income to changes in consumption.

D. spending to changes in real GDP.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #137
Blooms: Apply
Difficulty: 1 Easy
Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.
Section: The Expenditures Multiplier
Topic: The Multiplier Effect

138. The multiplier can be calculated by dividing

A. the initial change in spending by the change in real GDP.

B. the change in real GDP by the initial change in spending.

C. one by one minus the marginal propensity to save.

D. one by one minus the marginal propensity to invest.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #138
Blooms: Apply
Difficulty: 1 Easy
Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.
Section: The Expenditures Multiplier
Topic: The Multiplier Effect

139. The simple multiplier formula assumes the following, *except* that

A. the economy has excess capacity and room to expand output.

B. firms will raise prices as buyers buy more of their output.

C. people will spend more if they earn additional income.

D. business firms will increase production if demand for their output increases.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #139
Blooms: Apply
Difficulty: 1 Easy
Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.
Section: The Expenditures Multiplier
Topic: The Multiplier Effect

140. Generally speaking, the greater the MPS, the

A. smaller would be the increase in income that results from an increase in consumption spending.
B. larger would be the increase in income that results from an increase in consumption spending.
C. larger would be the increase in income that results from a decrease in consumption spending.
D. smaller would be the increase in income that results from a decrease in consumption spending.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #140
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.
Section: The Expenditures Multiplier
Topic: The Multiplier Effect

141. If the MPC is 0.75, the expenditure multiplier will be

A. 2.
B. 3.
C. 3.5.
D. 4.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #141
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.
Section: The Expenditures Multiplier

Topic: The Multiplier Effect

142. If, in an economy, a $200 billion increase in consumption spending creates $200 billion of new income in the first round of the multiplier process and $160 billion in the second round, the marginal propensity to consume and the multiplier are, respectively

A. 0.8 and 5.0.

B. 0.4 and 2.5.

C. 0.4 and 1.67.

D. 0.2 and 1.25.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #142
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.
Section: The Expenditures Multiplier
Topic: The Multiplier Effect

143. Assume the marginal propensity to consume is 0.8. If consumer spending increases by $20 billion, then real GDP will

A. increase by $100 billion.

B. decrease by $100 billion.

C. increase by $16 billion.

D. will not change.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #143

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.

Section: The Expenditures Multiplier

Topic: The Multiplier Effect

144. Assume that MPS is 0.4. If spending increases by $8 billion, then real GDP will increase by

A. $8 billion.

B. $13.3 billion.

C. $15 billion.

D. $20 billion.

AACSB: Analytic

Accessibility: Keyboard Navigation

Asarta - Test Bank... #144

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.

Section: The Expenditures Multiplier

Topic: The Multiplier Effect

145.

To answer the next question, use the information in the table below which illustrates the multiplier process resulting from an autonomous increase in investment by $5.

	Change in Income	Change in Consumption	Change in Savings
Assumed increase in investment	$5.00		$1.25
Second round		$2.81	
All other rounds		8.44	
Totals			5.00

The marginal propensity to consume is

A. 0.5.

B. 0.75.

C. 0.8.

D. 0.9.

AACSB: Analytic

Asarta - Test Bank... #145

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.

146.

To answer the next question, use the information in the table below which illustrates the multiplier process resulting from an autonomous increase in investment by $5.

	Change in Income	Change in Consumption	Change in Savings
Assumed increase in investment	$5.00		$1.25
Second round		$2.81	
All other rounds		8.44	
Totals			5.00

The change in income in round two will be

A. $0.94.

B. $2.81.

C. $3.75.

D. $4.00.

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.

Section: The Expenditures Multiplier

Topic: The Multiplier Effect

147.

To answer the next question use the information in the table below which illustrates the multiplier process resulting from an autonomous increase in investment by $5.

	Change in Income	Change in Consumption	Change in Savings
Assumed increase in investment	$5.00		$1.25
Second round		$2.81	
All other rounds		8.44	
Totals			5.00

The total change in income resulting from the initial change in investment will be

A. $5.

B. $10.

C. $15.

D. $20.

AACSB: Analytic

Asarta - Test Bank... #147

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.

148.

To answer the next question use the information in the table below which illustrates the multiplier process resulting from an autonomous increase in investment by $5.

	Change in Income	Change in Consumption	Change in Savings
Assumed increase in investment	$5.00		$1.25
Second round		$2.81	
All other rounds		8.44	
Totals			5.00

The multiplier in this economy is

A. 2.

B. 3.

C. 4.

D. 5.

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.

Section: The Expenditures Multiplier

Topic: The Multiplier Effect

149. An increase in spending of $25 billion increases real GDP from $600 billion to $700 billion. The marginal propensity to consume must be

A. 0.25 and the multiplier is 4.

B. 0.50 and the multiplier is 2.

C. 0.75 and the multiplier is 4.

D. 0.80 and the multiplier is 5.

AACSB: Analytic

Accessibility: Keyboard Navigation

Asarta - Test Bank... #149

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.

Section: The Expenditures Multiplier

Topic: The Multiplier Effect

150. The value of the multiplier is likely to fall if there is a fall in

A. consumption.

B. income.

C. total spending.

D. the marginal propensity to consume.

AACSB: Analytic

Accessibility: Keyboard Navigation

Asarta - Test Bank... #150

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.

Section: The Expenditures Multiplier

Topic: The Multiplier Effect

151. If the MPC is 0.8, what change in investment spending is required to effect a total change in income by $60 billion?

A. $12 billion

B. $15 billion

C. $20 billion

D. $25 billion

AACSB: Analytic

Accessibility: Keyboard Navigation

Asarta - Test Bank... #151

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.

Section: The Expenditures Multiplier

Topic: The Multiplier Effect

152. An $18 billion increase in spending creates $18 billion of new income in the first round of the multiplier process and $13.5 billion in the second round. The multiplier in the economy is

A. 2.

B. 3.

C. 4.

D. 5.

AACSB: Analytic

Accessibility: Keyboard Navigation

Asarta - Test Bank... #152

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.

Section: The Expenditures Multiplier

Topic: The Multiplier Effect

153. If the MPC in an economy is 0.75 and aggregate expenditures increase by $5 billion, then equilibrium GDP will increase by

A. $3.75 billion.

B. $6.7 billion.

C. $8.75 billion.

D. $20 billion.

AACSB: Analytic

Accessibility: Keyboard Navigation

Asarta - Test Bank... #153

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.

Section: The Expenditures Multiplier

Topic: The Multiplier Effect

154.

Use the data in the following table for a private closed economy to answer the next question. All figures are in billions of dollars.

Domestic Output or Income (GDP = DI)	Consumption
$540	$540
560	555
580	570
600	585
620	600
640	615
660	630

The MPC and multiplier are, respectively

A. 0.80 and 5.

B. 0.75 and 4.

C. 0.75 and 1.33.

D. 0.80 and 1.25.

AACSB: Analytic

Asarta - Test Bank... #154

Blooms: Apply

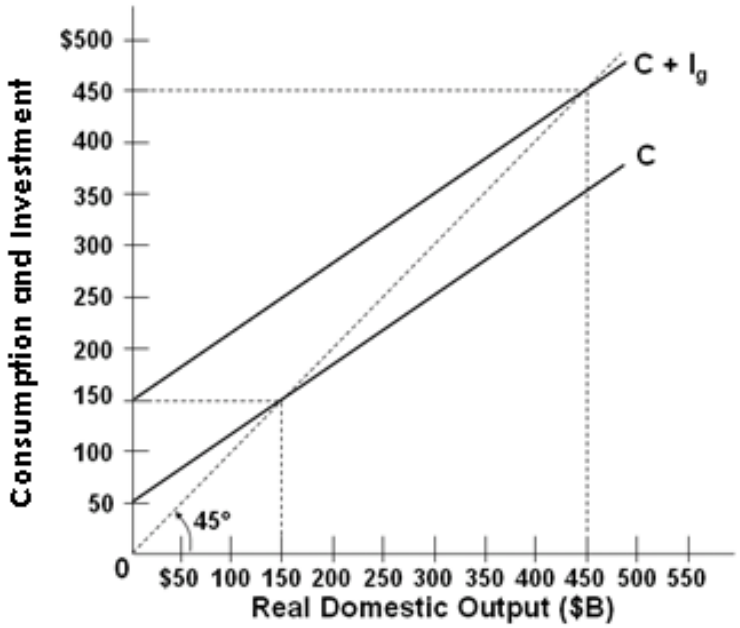
Difficulty: 2 Medium

Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.

Section: The Expenditures Multiplier

Topic: The Multiplier Effect

155. Use the following graph for a private closed economy to answer the next question.



The multiplier for the above economy is

A. 2.

B. 3.

C. 4.

D. 5.

AACSB: Analytic

Asarta - Test Bank... #155

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.

Section: The Expenditures Multiplier

Topic: The Multiplier Effect

156. In a private closed economy where MPC = 0.8, if consumers reduce their spending by $10 billion and firms cut investments by $5 billion, then equilibrium GDP will decrease by

A. $75 billion.

B. $25 billion.

C. $18.8 billion.

D. $15 billion.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #156
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.
Section: The Expenditures Multiplier
Topic: The Multiplier Effect

157. Recently, the level of GDP has declined by $60 billion in an economy where the marginal propensity to consume is 0.75. Aggregate expenditures must have fallen by

A. $45 billion.

B. $30 billion.

C. $15 billion.

D. $60 billion.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #157
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.
Section: The Expenditures Multiplier
Topic: The Multiplier Effect

158. The marginal propensity to save is 0.2. Equilibrium GDP will decrease by $50 billion if aggregate expenditures schedule decrease by

A. $10 billion.

B. $15 billion.

C. $16 billion.

D. $40 billion.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #158
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.
Section: The Expenditures Multiplier
Topic: The Multiplier Effect

159. If aggregate expenditures increase by $12 billion and equilibrium GDP consequently increases by $48 billion, then the marginal propensity to save in the economy must be

A. 0.75.

B. 0.25.

C. 0.8.

D. 0.2.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #159
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.
Section: The Expenditures Multiplier
Topic: The Multiplier Effect

160.

Use the following table to answer the next question. All figures in the table below are in billions.

GDP	Consumption + Investment	Exports	Imports
$500	$525	$15	$10
550	560	15	10
600	595	15	10
650	630	15	10
700	665	15	10
750	700	15	10

Assume that investment is not affected by the income GDP level. The multiplier for this private open economy is

A. 1.25.

B. 2.00.

C. 2.50.

D. 3.33.

AACSB: Analytic

Asarta - Test Bank... #160

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.

Section: The Expenditures Multiplier

Topic: The Multiplier Effect

161.

Use the following table to answer the next question. All figures in the table below are in billions of dollars.

GDP	Aggregate Expenditures (Closed Economy)	Exports	Imports
$400	$440	$50	$60
450	480	50	60
500	520	50	60
550	560	50	60
600	600	50	60
650	640	50	60
700	680	50	60

If this economy were closed to international trade, then the equilibrium GDP and the multiplier would be

A. $500 billion and 5.

B. $500 billion and 4.

C. $600 billion and 5.

D. $600 billion and 4.

AACSB: Analytic

Asarta - Test Bank... #161

Blooms: Apply

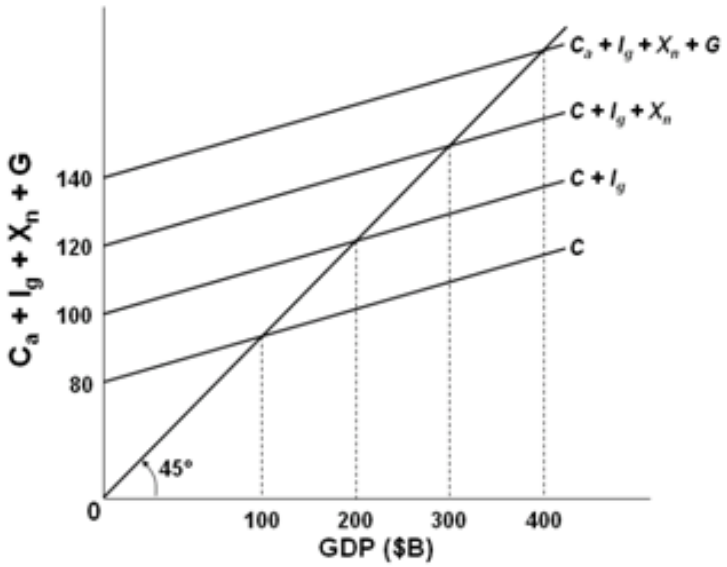
Difficulty: 3 Hard

Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.

Section: The Expenditures Multiplier

Topic: The Multiplier Effect

162. Use the following graph to answer the next question.



The size of the multiplier associated with changes in government spending in this economy is

A. 2.00.

B. 3.50.

C. 5.00.

D. 6.67.

AACSB: Analytic

Asarta - Test Bank... #162

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.

Section: The Expenditures Multiplier

Topic: The Multiplier Effect

163.

The table below shows the consumption schedule for a hypothetical economy. All figures are in billions of dollars.

Real GDP	Consumption
$600	$590
610	598
620	606
630	614
640	622
650	630
660	638

If planned investments were fixed at $16, taxes were zero, government purchases of goods and services were zero, and net exports were zero, then equilibrium real GDP would be $630 initially. If government purchases were then raised from $0 to $4, other things constant, the equilibrium real GDP would become

A. $660.

B. $630.

C. $640.

D. $650.

AACSB: Analytic

Asarta - Test Bank... #163

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.

Section: The Expenditures Multiplier

Topic: The Multiplier Effect

164. A tax cut will have a greater effect on equilibrium GDP if the

A. marginal propensity to consume is smaller.

B. marginal propensity to save is smaller.

C. marginal propensity to save is larger.

D. average propensity to consume is larger.

AACSB: Analytic

Accessibility: Keyboard Navigation

Asarta - Test Bank... #164

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: Calculate the tax multiplier using the marginal propensity to consume.

Section: The Tax Multiplier

Topic: The Tax Multiplier Effect

165. If a lump-sum tax of $40 billion is levied at each level of income and the MPC is 0.75, then the saving schedule will shift

A. upward by $10 billion.

B. upward by $25 billion.

C. downward by $10 billion.

D. downward by $25 billion.

AACSB: Analytic

Accessibility: Keyboard Navigation

Asarta - Test Bank... #165

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: Calculate the tax multiplier using the marginal propensity to consume.

Section: The Tax Multiplier

Topic: The Tax Multiplier Effect

166.

Use the following consumption schedule for an economy to answer the next question. All figures are in billions of dollars.

GDP	Consumption
$440	$450
490	490
540	530
590	570
640	610

If a government sector is introduced and a lump-sum tax of $30 billion is imposed at all levels of GDP, then the consumption column in the table becomes

A. $420, 460, 500, 540, 580.

B. $426, 466, 506, 546, 586.

C. $430, 470, 510, 550, 590.

D. $432, 472, 512, 552, 592.

AACSB: Analytic

Asarta - Test Bank... #166

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: Calculate the tax multiplier using the marginal propensity to consume.

Section: The Tax Multiplier

Topic: The Tax Multiplier Effect

167.

The table below shows the consumption schedule for a hypothetical economy. All figures are in billions of dollars.

Real GDP	Consumption
$600	$590
610	598
620	606
630	614
640	622
650	630
660	638

If planned investments were fixed at $16, taxes were zero, government purchases of goods and services were zero, and net exports were zero, then equilibrium real GDP would be $630 initially. If government purchases were then raised from $0 to $10 and lump-sum taxes also increased from $0 to $10, other things constant, the equilibrium real GDP would become

A. $660.

B. $630.

C. $640.

D. $650.

AACSB: Analytic
Asarta - Test Bank... #167
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: Calculate the tax multiplier using the marginal propensity to consume.
Section: The Tax Multiplier
Topic: The Tax Multiplier Effect

168. In the aggregate expenditures model, we note that an increase in government purchases G and an increase in lump-sum taxes T of the same amount will have

A. the same magnitudes of impact on equilibrium GDP, though in opposite directions.

B. different effects on GDP, with the change in G having a larger impact than the change in T.

C. different effects on GDP, with the change in T having a larger impact than the change in G.

D. essentially the same effect on equilibrium GDP, both in magnitude and in direction.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #168
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: Calculate the tax multiplier using the marginal propensity to consume.
Section: The Tax Multiplier
Topic: The Tax Multiplier Effect

169. A constitutional amendment is passed that requires the government to have an annually balanced budget in the sense that changes in spending should be matched by equivalent changes in taxes. Should the government desire to increase GDP by $25 billion and meet the provisions of the law, it

A. cannot possibly reach its objective without breaking the law.
B. could increase spending by $25 billion and reduce taxes by $25 billion.
C. could increase spending by $25 billion and increase taxes by $25 billion.
D. could increase spending by $30 billion and increase taxes by $25 billion.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #169
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: Calculate the tax multiplier using the marginal propensity to consume.
Section: The Tax Multiplier
Topic: The Tax Multiplier Effect

170. If a government raises its expenditures by $50 billion and at the same time levies a lump-sum tax of $50 billion, the net effect on the economy will be to

A. increase GDP by less than $50 billion.
B. increase GDP by more than $50 billion.
C. increase GDP by $50 billion.
D. make no change in GDP.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #170
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: Calculate the tax multiplier using the marginal propensity to consume.
Section: The Tax Multiplier

Topic: The Tax Multiplier Effect

171. A personal tax cut of $50 billion will affect income differently than an increase in government spending by $50 billion because

A. the increase in government spending will produce a political business cycle.

B. the increase in government spending is less expansionary than the increase in taxes.

C. households may save part of the additional income from the tax cut.

D. households may consume more than the additional income from the tax cut.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #171
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: Calculate the tax multiplier using the marginal propensity to consume.
Section: The Tax Multiplier
Topic: The Tax Multiplier Effect

172. If the marginal propensity to consume is .80 and both taxes and government purchases increase by $50 billion, GDP will

A. increase by $50 billion.

B. decrease by $50 billion.

C. increase by $10 billion.

D. decrease by $10 billion.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #172
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: Calculate the tax multiplier using the marginal propensity to consume.
Section: The Tax Multiplier
Topic: The Tax Multiplier Effect

173. Suppose the GDP is in equilibrium at full employment and the MPC is .80. If government wants to increase its purchase of goods and services by $16 billion without changing equilibrium GDP, taxes should be

A. increased by $20 billion.
B. reduced by $16 billion.
C. increased by $16 billion.
D. reduced by $20 billion.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #173
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: Calculate the tax multiplier using the marginal propensity to consume.
Section: The Tax Multiplier
Topic: The Tax Multiplier Effect

174. The effect of a decline in taxes on the level of income will differ somewhat from an increase in government expenditures of the same amount because

A. tax declines tend to be more expansionary.
B. households may not spend all of an increase in disposable income.
C. the MPC that applies to the incomes of households always exceeds the MPC that applies to business incomes.
D. the multiplier is high when the MPS is low.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #174
Blooms: Apply
Difficulty: 1 Easy
Learning Objective: Calculate the tax multiplier using the marginal propensity to consume.

Section: The Tax Multiplier

Topic: The Tax Multiplier Effect

175. Assuming that MPC is .75, equal increases in government spending and tax collections by $10 billion will

A. leave the equilibrium GDP unchanged.

B. increase the equilibrium GDP by $10 billion.

C. increase the equilibrium GDP by $2.5 billion.

D. reduce the equilibrium GDP by $10 billion.

AACSB: Analytic

Accessibility: Keyboard Navigation

Asarta - Test Bank... #175

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Calculate the tax multiplier using the marginal propensity to consume.

Section: The Tax Multiplier

Topic: The Tax Multiplier Effect

176.

Use the aggregate expenditures model and the following values to answer the next question.

A	MPC	I	G	T
$900	0.9	$2,500	$2,500	$1,000

Determine equilibrium GDP for this economy.

A. $50,000

B. $59,000

C. $60,000

D. $69,000

AACSB: Analytic

Asarta - Test Bank... #176

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Solve for the mathematical relationships of the aggregate expenditures model.

Section: The Math behind the Aggregate Expenditures Model

Topic: The Aggregate Expenditures Model

177.

Use the aggregate expenditures model and the following values to answer the next question.

A	MPC	I	G	T
$900	0.9	$2,500	$2,500	$1,000

Determine equilibrium consumption for this economy.

A. $44,100

B. $45,000

C. $45,900

D. $50,000

AACSB: Analytic

Asarta - Test Bank... #177

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Solve for the mathematical relationships of the aggregate expenditures model.

Section: The Math behind the Aggregate Expenditures Model

Topic: The Aggregate Expenditures Model

178.

Use the aggregate expenditures model and the following values to answer the question below.

A	MPC	I	G	T
$900	0.9	$2,500	$2,500	$1,000

Determine the change in the equilibrium level of GDP (find ΔY) following a decrease in investment from 2,500 to 2,000 (ΔI = -$500).

A.
negative $5,000

B.
positive $5,000

C.
negative $4,000

D.
positive $4,000

AACSB: Analytic

Asarta - Test Bank... #178

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Solve for the mathematical relationships of the aggregate expenditures model.

Section: The Math behind the Aggregate Expenditures Model

Topic: The Aggregate Expenditures Model

179.

Use the aggregate expenditures model and the following values to answer the next question.

A	MPC	I	G	T
$900	0.9	$2,500	$2,500	$1,000

Determine the change in the equilibrium level of Consumption (find ΔC) following a decrease in investment from 2,500 to 2,000 (ΔI = -$500).

A.
negative $4,000

B.
positive $4,000

C.
negative $4,500

D.
positive $4,500

AACSB: Analytic

Asarta - Test Bank... #179

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Solve for the mathematical relationships of the aggregate expenditures model.

Section: The Math behind the Aggregate Expenditures Model

180.

Use the aggregate expenditures model and the following values to answer the next question.

A	MPC	I	G	T
$350	0.75	$400	$400	$200

Determine equilibrium GDP for this economy.

A. $3,800

B. $4,000

C. $4,600

D. $5,400

AACSB: Analytic

Asarta - Test Bank... #180

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Solve for the mathematical relationships of the aggregate expenditures model.

Section: The Math behind the Aggregate Expenditures Model

Topic: The Aggregate Expenditures Model

181.

Use the aggregate expenditures model and the following values to answer the next question.

A	MPC	I	G	T
$350	0.75	$400	$400	$200

Determine equilibrium consumption for this economy.

A. $2,850

B. $3,000

C. $3,200

D. $3,350

AACSB: Analytic

Asarta - Test Bank... #181

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Solve for the mathematical relationships of the aggregate expenditures model.

Section: The Math behind the Aggregate Expenditures Model

Topic: The Aggregate Expenditures Model

182.

Use the aggregate expenditures model and the following values to answer the next question.

A	MPC	I	G	T
$350	0.75	$400	$400	$200

Determine the change in the equilibrium GDP (find ΔY) following a decrease in government spending from 400 to 300 (ΔG = -$100).

A.
negative $500

B.
positive $500

C.
negative $400

D.
positive $400

AACSB: Analytic

Asarta - Test Bank... #182

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Solve for the mathematical relationships of the aggregate expenditures model.

Section: The Math behind the Aggregate Expenditures Model

Topic: The Aggregate Expenditures Model

183.

Use the aggregate expenditures model and the following values to answer the next question.

A	MPC	I	G	T
$350	0.75	$400	$400	$200

Determine the change in the equilibrium level of consumption (find ΔC) following a decrease in government spending from 400 to 300 (ΔG = -$100).

A.
negative $300

B.
positive $300

C.
negative $400

D.
positive $400

AACSB: Analytic

Asarta - Test Bank... #183

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Solve for the mathematical relationships of the aggregate expenditures model.

Section: The Math behind the Aggregate Expenditures Model

184.

Use the aggregate expenditures model and the following values to answer the next question.

A	MPC	I	G	T
$750	0.5	$1,000	$1,000	$500

Determine equilibrium GDP for this economy.

A. $4,000

B. $4,500

C. $5,000

D. $5,500

AACSB: Analytic

Asarta - Test Bank... #184

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Solve for the mathematical relationships of the aggregate expenditures model.

Section: The Math behind the Aggregate Expenditures Model

Topic: The Aggregate Expenditures Model

185.

Use the aggregate expenditures model and the following values to answer the next question.

A	MPC	I	G	T
$750	0.5	$1,000	$1,000	$500

Determine equilibrium consumption for this economy.

A. $2,500

B. $3,000

C. $3,250

D. $3,500

AACSB: Analytic

Asarta - Test Bank... #185

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Solve for the mathematical relationships of the aggregate expenditures model.

Section: The Math behind the Aggregate Expenditures Model

Topic: The Aggregate Expenditures Model

186.

Use the aggregate expenditures model and the following values to answer the next question.

A	MPC	I	G	T
$750	0.5	$1,000	$1,000	$500

Determine the new equilibrium GDP following a decrease in taxes from 500 to 400 (ΔT = -$100).

A. $4,000

B. $4,500

C. $4,900

D. $5,100

AACSB: Analytic

Asarta - Test Bank... #186

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Solve for the mathematical relationships of the aggregate expenditures model.

Section: The Math behind the Aggregate Expenditures Model

Topic: The Aggregate Expenditures Model

187.

Use the aggregate expenditures model and the following values to answer the next question.

A	MPC	I	G	T
$750	0.5	$1,000	$1,000	$500

Determine the new equilibrium GDP following a decrease in taxes from 500 to 400 (ΔT = -$100).

A. $2,900

B. $3,000

C. $3,100

D. $3,200

AACSB: Analytic

Asarta - Test Bank... #187

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Solve for the mathematical relationships of the aggregate expenditures model.

Section: The Math behind the Aggregate Expenditures Model

Topic: The Aggregate Expenditures Model

188. When aggregate expenditure is greater than GDP, then there will be an unplanned

A. increase in inventories and GDP will increase.

B. decrease in inventories and GDP will increase.

C. increase in inventories and GDP will decrease.

D. decrease in inventories and GDP will decrease.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #188
Blooms: Apply
Difficulty: 1 Easy
Learning Objective: Use the aggregate expenditures model to determine how changes to its components affect equilibrium real GDP.
Section: Equilibrium Dynamics
Topic: Adjustment in the Aggregate Expenditures Model

189. In a private closed economy, there will be an unplanned increase in inventories when

A. aggregate expenditures exceed GDP.

B. aggregate expenditures exceed (C + I).

C. (C + I) exceeds aggregate expenditures.

D. GDP exceeds aggregate expenditures.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #189
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: Use the aggregate expenditures model to determine how changes to its components affect equilibrium real GDP.
Section: Equilibrium Dynamics
Topic: Adjustment in the Aggregate Expenditures Model

190.

Use the following table with data for a private (no government) closed economy to answer the next question. All figures are in billions of dollars.

Domestic Output or Income (GDP = DI)	Consumption
$540	$540
560	555
580	570
600	585
620	600
640	615
660	630

If planned investment is $25 billion, then aggregate expenditures at the income level of $560 billion will be

A. $565 billion.

B. $580 billion.

C. $585 billion.

D. $595 billion.

AACSB: Analytic

Asarta - Test Bank... #190

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Use the aggregate expenditures model to determine how changes to its components affect equilibrium real GDP.

Section: Equilibrium Dynamics

Topic: Adjustment in the Aggregate Expenditures Model

191.

Use the following table with data for a private (no government) closed economy to answer the next question All figures are in billions of dollars.

Domestic Output or Income (GDP = DI)	Consumption
$540	$540
560	555
580	570
600	585
620	600
640	615
660	630

If planned investment is $15 billion, then at the $560 billion level of output, there will be an unplanned

A. increase in inventories of $5 billion.

B. increase in inventories of $10 billion.

C. decrease in inventories of $5 billion.

D. decrease in inventories of $10 billion.

AACSB: Analytic

Asarta - Test Bank... #191

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: Use the aggregate expenditures model to determine how changes to its components affect equilibrium real GDP.

Section: Equilibrium Dynamics

Topic: Adjustment in the Aggregate Expenditures Model

192.

Use the following table with data for a private (no government) closed economy to answer the next question. All figures are in billions of dollars.

Domestic Output or Income (GDP = DI)	Consumption
$540	$540
560	555
580	570
600	585
620	600
640	615
660	630

If planned investment is $18 billion, then at the $660 billion level of disposable income, there will be an unplanned

A. increase in inventories of $12 billion.

B. increase in inventories of $30 billion.

C. decrease in inventories of $12 billion.

D. decrease in inventories of $30 billion.

AACSB: Analytic

Asarta - Test Bank... #192

Blooms: Apply

Difficulty: 2 Medium

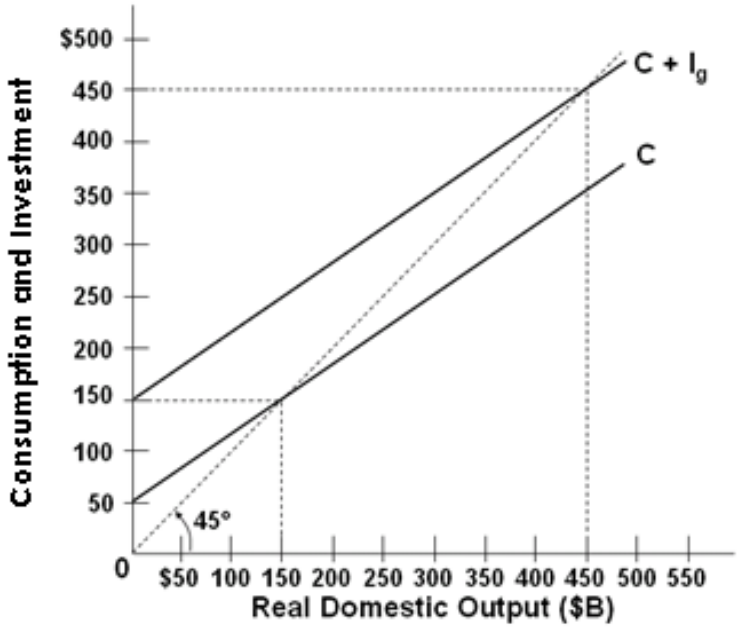
Learning Objective: Use the aggregate expenditures model to determine how changes to its components affect equilibrium real GDP.

Section: Equilibrium Dynamics

Topic: Adjustment in the Aggregate Expenditures Model

193.

Use the following graph with data for a private closed economy to answer the next question.



At the $150 billion level of GDP, aggregate expenditures are

A. less than real GDP, so GDP will rise.

B. more than real GDP, so GDP will fall.

C. more than real GDP, so GDP will rise.

D. equal to GDP, so there will be no change in GDP.

AACSB: Analytic

Asarta - Test Bank... #193

Blooms: Apply

Difficulty: 2 Medium

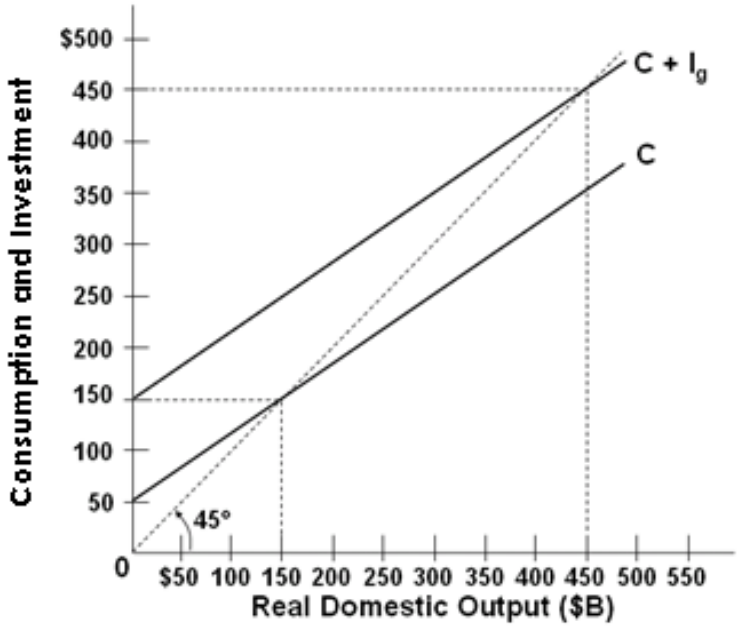
Learning Objective: Use the aggregate expenditures model to determine how changes to its components affect equilibrium real GDP.

Section: Equilibrium Dynamics

Topic: Adjustment in the Aggregate Expenditures Model

194.

Use the following graph with data for a private closed economy to answer the next question.



When output or income is $350 billion there will be

A. equilibrium GDP.

B. saving exceeding planned investment.

C. unplanned increases in inventories.

D. unplanned decreases in inventories.

AACSB: Analytic

Asarta - Test Bank... #194

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: Use the aggregate expenditures model to determine how changes to its components affect equilibrium real GDP.

Section: Equilibrium Dynamics

195.

When the economy is at its equilibrium GDP level, which one of the following will not occur?

A.

Aggregate expenditures = GDP.

B.

Inventories will be zero.

C.

Saving equals planned investment.

D.

There are no unplanned changes in inventories.

AACSB: Analytic

Accessibility: Keyboard Navigation

Asarta - Test Bank... #195

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: Use the aggregate expenditures model to determine how changes to its components affect equilibrium real GDP.

Section: Equilibrium Dynamics

Topic: Adjustment in the Aggregate Expenditures Model

196. If GDP exceeds aggregate expenditures in a private closed economy

A. saving will exceed planned investment.

B. planned investment will exceed saving.

C. planned investment will exceed actual investment.

D. injections will exceed leakages.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #196
Blooms: Apply
Difficulty: 1 Easy
Learning Objective: Use the aggregate expenditures model to determine how changes to its components affect equilibrium real GDP.
Section: Equilibrium Dynamics
Topic: Adjustment in the Aggregate Expenditures Model

197. When planned investment exceeds saving in a private closed economy

A. aggregate expenditures will equal GDP.

B. aggregate expenditures will exceed GDP.

C. aggregate expenditures will be less than GDP.

D. consumption plus investment will equal GDP.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #197
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: Use the aggregate expenditures model to determine how changes to its components affect equilibrium real GDP.
Section: Equilibrium Dynamics
Topic: Adjustment in the Aggregate Expenditures Model

198. If actual investment exceeds planned investment in a private closed economy, then

A. real GDP will decrease.

B. real GDP will increase.

C. saving exceeds planned investment.

D. there is an unplanned decrease in inventories.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #198
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: Use the aggregate expenditures model to determine how changes to its components affect equilibrium real GDP.
Section: Equilibrium Dynamics
Topic: Adjustment in the Aggregate Expenditures Model

199. When saving is less than planned investment in the aggregate expenditures model of a private closed economy, then

A. real GDP will decrease.

B. the rate of interest will decline.

C. there will be a decline in the price level.

D. there will be a rise in real GDP.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #199
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: Use the aggregate expenditures model to determine how changes to its components affect equilibrium real GDP.
Section: Equilibrium Dynamics
Topic: Adjustment in the Aggregate Expenditures Model

200. Planned investment is $20 billion and saving is $15 billion when GDP in the economy is $180 billion. The economy is

A. at the equilibrium level of GDP.

B. in disequilibrium and its GDP will increase.

C. in disequilibrium and its GDP will decrease.

D. having a GDP level that is greater than its aggregate expenditures.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #200
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: Use the aggregate expenditures model to determine how changes to its components affect equilibrium real GDP.
Section: Equilibrium Dynamics
Topic: Adjustment in the Aggregate Expenditures Model

201. Saving is $40 billion and planned investment is $28 billion at the $175 billion level of output in a private closed economy. At this level

A. consumption will be $147 billion.

B. actual investment will be $28 billion.

C. unplanned investment will be positive $12 billion.

D. unplanned investment will be negative $12 billion.

AACSB: Analytic
Accessibility: Keyboard Navigation
Asarta - Test Bank... #201
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: Use the aggregate expenditures model to determine how changes to its components affect equilibrium real GDP.
Section: Equilibrium Dynamics
Topic: Adjustment in the Aggregate Expenditures Model

202. In the aggregate expenditures model, the equilibrium GDP is

A. assumed to be equal to the potential GDP level.

B. not necessarily equal to the full-employment GDP.

C. always above the potential GDP level.

D. always less than the full-employment GDP level.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #202
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: Identify the inflationary and recessionary gaps in the aggregate expenditures model.
Section: Identifying Inflationary and Recessionary Gaps
Topic: Equilibrium versus Full-Employment GDP

203. In a recessionary expenditure gap, the equilibrium level of real GDP is

A. less than planned aggregate expenditures.

B. greater than planned aggregate expenditures.

C. greater than full-employment GDP.

D. less than full-employment GDP.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #203
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: Identify the inflationary and recessionary gaps in the aggregate expenditures model.
Section: Identifying Inflationary and Recessionary Gaps
Topic: Equilibrium versus Full-Employment GDP

204. The amount by which an aggregate expenditures schedule must shift upward to achieve the full-employment GDP is a(n)

A. inflationary expenditure gap.

B. recessionary expenditure gap.

C. expenditure multiplier gap.

D. negative net export gap.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #204
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: Identify the inflationary and recessionary gaps in the aggregate expenditures model.
Section: Identifying Inflationary and Recessionary Gaps
Topic: Equilibrium versus Full-Employment GDP

205. In an inflationary expenditure gap, the equilibrium level of real GDP is

A. greater than planned investment.

B. equal to full-employment GDP.

C. greater than full-employment GDP.

D. less than full-employment GDP.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #205
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: Identify the inflationary and recessionary gaps in the aggregate expenditures model.
Section: Identifying Inflationary and Recessionary Gaps
Topic: Equilibrium versus Full-Employment GDP

206. An economy characterized by high unemployment is likely to be

A. experiencing a high rate of economic growth.

B. experiencing hyperinflation.

C. having a recessionary expenditure gap.

D. having an inflationary expenditure gap.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #206
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: Calculate the expenditures multiplier using either the marginal propensity to consume or the marginal propensity to save.
Section: Identifying Inflationary and Recessionary Gaps
Topic: Equilibrium versus Full-Employment GDP

207. If the MPC in an economy is 0.8, government could close a recessionary expenditure gap of $100 billion by cutting taxes by

A. $80 billion.

B. $100 billion.

C. $125 billion.

D. $200 billion.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #207
Blooms: Remember
Difficulty: 3 Hard
Learning Objective: Identify the inflationary and recessionary gaps in the aggregate expenditures model.
Section: Identifying Inflationary and Recessionary Gaps
Topic: Equilibrium versus Full-Employment GDP

208. Assume that the marginal propensity to consume in an economy is 0.75. If the economy's full-employment real GDP is $900 billion and its equilibrium real GDP is $800 billion, there is a recessionary expenditure gap of

A. $25 billion.

B. $100 billion.

C. $133 billion.

D. $400 billion.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #208
Blooms: Remember
Difficulty: 3 Hard
Learning Objective: Identify the inflationary and recessionary gaps in the aggregate expenditures model.
Section: Identifying Inflationary and Recessionary Gaps
Topic: Equilibrium versus Full-Employment GDP

209. Assume that the marginal propensity to consume in an economy is 0.9. If the economy's full-employment real GDP is $500 billion and its equilibrium real GDP is $550 billion, there is an inflationary expenditure gap of

A. $5 billion.

B. $50 billion.

C. $100 billion.

D. $500 billion.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #209
Blooms: Remember
Difficulty: 3 Hard
Learning Objective: Identify the inflationary and recessionary gaps in the aggregate expenditures model.
Section: Identifying Inflationary and Recessionary Gaps

Topic: Equilibrium versus Full-Employment GDP

210. To close an inflationary expenditure gap of $20 billion in an economy with a marginal propensity to consume of 0.8, it would be necessary to

A. decrease the aggregate expenditures schedule by $20 billion.

B. decrease the aggregate expenditures schedule by $4 billion.

C. increase the aggregate expenditures schedule by $20 billion.

D. increase the aggregate expenditures schedule by $4 billion.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #210
Blooms: Remember
Difficulty: 3 Hard
Learning Objective: Identify the inflationary and recessionary gaps in the aggregate expenditures model.
Section: Identifying Inflationary and Recessionary Gaps
Topic: Equilibrium versus Full-Employment GDP

211. The amount by which aggregate expenditures exceed those associated with the full-employment level of domestic output can best be described as

A. a recessionary expenditure gap.

B. an inflationary expenditure gap.

C. the multiplier.

D. the average propensity to save.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #211
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: Identify the inflationary and recessionary gaps in the aggregate expenditures model.
Section: Identifying Inflationary and Recessionary Gaps
Topic: Equilibrium versus Full-Employment GDP

212. In an open mixed economy, the inflationary expenditure gap may be described as the

A. excess of GDP over $C_a + I_g + X_n + G$ at the full-employment output.

B. excess of $S_a + M + T$ over $I_g + X + G$ at the full-employment GDP.

C. extra consumption that occurs when investment increases in a full-employment economy.

D. excess of $C_a + I_g + X_n + G$ at the full-employment GDP.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Asarta - Test Bank... #212
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: Identify the inflationary and recessionary gaps in the aggregate expenditures model.
Section: Identifying Inflationary and Recessionary Gaps
Topic: Equilibrium versus Full-Employment GDP

213. The $787-billion stimulus package enacted by the federal government in 2009 to try to deal with the Great Recession was intended to

A. shift the aggregate expenditures schedule down.

B. close an inflationary expenditures-gap.

C. bring inflation down.

D. push the aggregate expenditures schedule upward.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

Asarta - Test Bank... #213

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: Identify the inflationary and recessionary gaps in the aggregate expenditures model.

Section: Identifying Inflationary and Recessionary Gaps

Topic: Equilibrium versus Full-Employment GDP

214. In 2008 during the Great Recession, the federal government provided tax rebate checks to taxpayers in the hope that

A. C would shift down.

B. C would shift up.

C. G would shift down.

D. G would shift up.

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Asarta - Test Bank... #214

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: Identify the inflationary and recessionary gaps in the aggregate expenditures model.

Section: Identifying Inflationary and Recessionary Gaps

Topic: Equilibrium versus Full-Employment GDP

215. Say's law in classical economics suggests that, over a period of time, aggregate spending would tend to

A. exceed total output and income.

B. fall short of total output and income.

C. equal total output and income.

D. deviate from total output and income.

AACSB: Analytic

Accessibility: Keyboard Navigation

Asarta - Test Bank... #215

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: Identify the inflationary and recessionary gaps in the aggregate expenditures model.

Section: Identifying Inflationary and Recessionary Gaps

Topic: Equilibrium versus Full-Employment GDP

Aggregate Expenditures Model Summary

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