Chapter 13 EXPENDITURE MULTIPLIERS: THE KEYNESIAN MODEL*

Fixed Prices and Expenditure Plans

Topic: Keynesian Model
Skill: Recognition*

1) In the Keynesian model of aggregate expenditure, real GDP is determined by the
   A) price level.
   B) level of aggregate demand.
   C) level of aggregate supply.
   D) level of taxes.

Answer: B

Topic: Keynesian Model
Skill: Recognition*

2) The Keynesian model of aggregate expenditure assumes that
   A) individual prices are flexible but the price level is fixed.
   B) both individual prices and the price level are flexible.
   C) both individual prices and the price level are fixed.
   D) individual prices are fixed but the price level is flexible.

Answer: C

Topic: Aggregate Implications of Fixed Prices
Skill: Recognition

3) The typical firm
   A) changes its prices frequently in response to fluctuations in aggregate demand.
   B) lowers its prices when inventories are decreasing.
   C) does not change its prices immediately when aggregate demand fluctuates.
   D) lowers its prices if sales exceed production.

Answer: C

Topic: Aggregate Implications of Fixed Prices
Skill: Conceptual

4) If firms set prices and then keep them fixed for a period of time, their fixed prices imply that
   A) the aggregate price level is fixed and that aggregate demand determines the quantity of goods and services sold.
   B) prices are set by aggregate demand and supply.
   C) the aggregate price level adjusts continuously.
   D) the aggregate price level is fixed and that aggregate supply determines the quantity of goods and services sold.

Answer: A

Topic: Expenditure Plans
Skill: Recognition

5) In the very short term, which of the following is fixed and does not change when GDP changes?
   A) Planned investment
   B) Planned consumption
   C) Planned imports
   D) All of the above answers are correct

Answer: A

Topic: Expenditure Plans
Skill: Recognition

6) In the very short term, planned investment ____ when GDP changes and planned consumption expenditure ____ when GDP changes.
   A) changes; changes.
   B) changes; does not change
   C) does not change; changes
   D) does not change; does not change

Answer: C

* This is Chapter 29 in *Economics*.

Topic: Consumption Function
Skill: Recognition

7) A consumption function shows a
A) negative (inverse) relationship between consumption expenditure and saving.
B) positive (direct) relationship between consumption expenditure and price level.
C) negative (inverse) relationship between consumption expenditure and disposable income.
D) positive (direct) relationship between consumption expenditure and disposable income.

Answer: D

Topic: Consumption Function
Skill: Recognition

8) Disposable income is
A) income minus saving.
B) income minus net taxes.
C) income plus transfer payments minus consumption expenditure.
D) total income divided by the price level.

Answer: B

Topic: Consumption Function
Skill: Recognition

9) The consumption function relates consumption expenditure to
A) the interest rate.
B) disposable income.
C) saving.
D) the price level.

Answer: B

Topic: Consumption Function
Skill: Recognition

10) The consumption function relates the consumption expenditure decisions of households to
A) the level of disposable income.
B) investment decisions of firms.
C) saving decisions of households.
D) the nominal interest rate.

Answer: A

Topic: Consumption Function
Skill: Recognition

11) The graph of the consumption function has consumption expenditure on the vertical axis and
A) the interest rate on the horizontal axis.
B) time on the horizontal axis.
C) disposable income on the horizontal axis.
D) the Consumer Price Index on the horizontal axis.

Answer: C

Topic: Consumption Function
Skill: Recognition

12) The slope of the consumption function is
A) less than 1.
B) 1.
C) greater than 1.
D) negative.

Answer: A

Topic: Consumption Function and the 45-Degree Line
Skill: Recognition

13) The slope of the consumption function is
A) less than the slope of the 45-degree line but not equal to zero.
B) greater than the slope of the 45-degree line.
C) equal to the slope of the 45-degree line.
D) equal to zero.

Answer: A

Topic: Consumption Function
Skill: Conceptual

14) A movement along the consumption function is the result of changes in
A) the real interest rate.
B) disposable income.
C) expected future income.
D) All of the above answers are correct.

Answer: B

Topic: Consumption Function
Skill: Recognition

15) Which of the following variables does NOT have a direct effect of changing consumption expenditure?
A) disposable income
B) wealth
C) expected future income
D) expected future profits

Answer: D

Topic: Consumption Function
Skill: Conceptual

16) Which of the following will NOT shift the consumption function upward?
A) an increase in disposable income.
B) a fall in the real interest rate.
C) an increase in wealth.
D) none of the above shift the consumption function upward.

Answer: A

Topic: Autonomous Consumption
Skill: Recognition

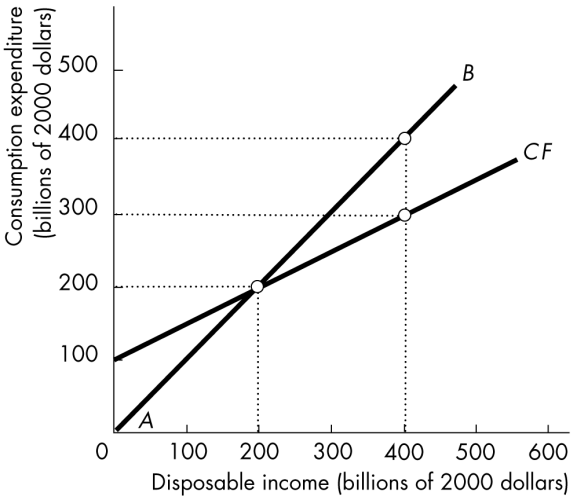
17) Autonomous consumption is that portion of consumption expenditure that is not influenced by
A) income.
B) preferences.
C) prices.
D) the legal authorities.

Answer: A

Topic: Autonomous Consumption
Skill: Recognition

18) Autonomous consumption
A) increases with income.
B) is independent of income.
C) is independent of income and must be equal to zero.
D) decreases with income.

Answer: B



Topic: Consumption Function
Skill: Analytical

19) In the above figure, consumption and disposable income are equal at
A) any point along the consumption function.
B) a saving level of $100 billion and disposable income level of $400 billion.
C) a disposable income level of $0.
D) a disposable income level of $200 billion.

Answer: D

Topic: Saving Function
Skill: Analytical

20) In the above figure, at a disposable income level of $200 billion, saving equals
A) disposable income.
B) zero.
C) $40 billion.
D) consumption expenditures.

Answer: B

Topic: Consumption Function and the 45-Degree Line
Skill: Analytical

21) In the above figure, the line *AB* is called
A) the saving function.
B) the consumption function.
C) the 45-degree line.
D) the expenditure function.

Answer: C

Topic: Consumption and Saving
Skill: Analytical

22) When disposable income equals $800 billion, planned consumption expenditure equals $600 billion, and when disposable income equals $1,000 billion, planned consumption expenditure equals $640 billion. What is planned saving when disposable income is $800 billion?
A) $200 billion
B) $360 billion
C) $560 billion
D) $1,400 billion
Answer: A

Topic: Saving Function
Skill: Recognition

23) Dissaving occurs when a household
A) spends less than it receives in disposable income.
B) spends more than it saves.
C) saves more than it spends.
D) consumes more than it receives in disposable income.
Answer: D

Topic: Saving Function
Skill: Conceptual

24) When the consumption function lies above the 45-degree line, households
A) spend on consumption an increasing percentage of any increase in income.
B) spend on consumption a decreasing percentage of any increase in income.
C) are dissaving.
D) save all of any increase in income.
Answer: C

Topic: Saving Function
Skill: Conceptual

25) Saving rather than dissaving occurs at any level of disposable income at which
A) the consumption function is above the 45-degree line.
B) the consumption function intersects the saving/income curve.
C) the consumption function is below the 45-degree line.
D) autonomous consumption is positive.
Answer: C

Topic: The Saving Function
Skill: Conceptual

26) A movement along the saving function occurs when
A) the real interest rate rises.
B) wealth increases.
C) disposable income decreases.
D) None of the above answers is correct.
Answer: C

Topic: Saving Function
Skill: Analytical

27) When disposable income is 0, consumption is $2000. Then
A) saving = 0.
B) saving = –$2000.
C) saving = $2000.
D) the *MPC* = 0.2.
Answer: B

Topic: The Consumption Function and the Saving Function
Skill: Conceptual

28) An increase in disposable income shifts
A) both the consumption and savings functions upward.
B) the consumption function upward and leads to a movement along the savings function.
C) both the consumption and savings functions downward.
D) neither the consumption function or the savings function because it leads to a movement along both the consumption and savings function.
Answer: D

Topic: Marginal Propensity to Consume
Skill: Recognition

29) What is the marginal propensity to consume?
A) the ratio of the change in consumption expenditure to the change in disposable income.
B) the percentage of a given income that is consumed.
C) one minus the fraction of total disposable income that is saved.
D) the percentage of interest income consumed.
Answer: A

Topic: Marginal Propensity to Consume
Skill: Conceptual

30) The marginal propensity to consume measures how much
A) disposable income is consumed.
B) disposable income goes to saving.
C) consumption expenditure occurs at the equilibrium income.
D) of a change in disposable income will be consumed.

Answer: D

Topic: Marginal Propensity to Consume
Skill: Recognition

31) The marginal propensity to consume is
A) total consumption expenditure divided by the change in disposable income.
B) the change in consumption expenditure divided by total disposable income.
C) the change in consumption expenditure divided by the change in disposable income.
D) the change in consumption expenditure divided by total saving.

Answer: C

Topic: Marginal Propensity to Consume
Skill: Conceptual

32) The marginal propensity to consume
A) is negative if dissaving is present.
B) is between 0 and 1.
C) equals 1.
D) exceeds 1.

Answer: B

Topic: Marginal Propensity to Consume
Skill: Analytical

33) If consumption expenditures for a household increase from $1000 to $1800 when disposable income rises from $1000 to $2000, the marginal propensity to consume is
A) 0.8.
B) 0.5.
C) 0.3.
D) 0.2.

Answer: A

Topic: Marginal Propensity to Consume
Skill: Analytical

34) If the marginal propensity to consume is 0.8, every $10 increase in disposable income increases
A) consumption expenditure by $0.80.
B) consumption expenditure by $18.00.
C) saving by $0.20.
D) consumption expenditure by $8.00.

Answer: D

Topic: Marginal Propensity to Save
Skill: Recognition

35) The marginal propensity to save (*MPS*) is
A) the increase in saving per dollar increase in disposable income.
B) total saving divided by total consumption expenditure.
C) the decrease in saving that is caused by inflation.
D) the decrease in saving per dollar increase in consumption expenditure.

Answer: A

Topic: Marginal Propensity to Save
Skill: Recognition

36) The marginal propensity to save is
A) total saving divided by total disposable income.
B) total saving divided by the change in disposable income.
C) the change in saving divided by the change in consumption expenditure.
D) the change in saving divided by the change in disposable income.

Answer: D

Topic: Marginal Propensity to Save
Skill: Recognition

37) The marginal propensity to save
A) is negative if dissaving is present.
B) is between 0 and 1.
C) equals 1.
D) exceeds 1.

Answer: B

Disposable income (thousands of dollars)	Consumption expenditure (thousands of dollars)
200	225
300	300
400	375
500	450

Topic: The Consumption Function and the Saving Function
Skill: Analytical

38) According to the data in the above table, at what level of disposable income is savings negative?
A) 200.
B) 300.
C) 400.
D) Never because saving cannot be negative.
Answer: A

Topic: Marginal Propensity to Consume
Skill: Analytical

39) According to the data in the above table, what is the marginal propensity to consume?
A) 75.
B) 100.
C) 0.75.
D) 1.
Answer: C

Disposable income (dollars)	Consumption expenditure (dollars)
100	225
200	300
300	375
400	450
500	525
600	600

Topic: Saving Function
Skill: Analytical

40) Using the above table, if disposable income is $400, saving is
A) –$50.
B) $0.
C) $50.
D) $100.
Answer: A

Topic: Marginal Propensity to Consume
Skill: Analytical

41) Using the data in above table, the marginal propensity to consume is
A) increasing as disposable income increases.
B) equal to 1.0 when disposable income equals $600.
C) constant at 0.75.
D) constant at 0.25.
Answer: C

Topic: Marginal Propensity to Save
Skill: Analytical

42) Using the data from the above table, the marginal propensity to save is
A) falling as disposable income is rising.
B) 0 when disposable income is $600.
C) constant at 0.25.
D) constant at 0.75.
Answer: C

Topic: Marginal Propensities to Consume and Save
Skill: Conceptual

43) For a household, the marginal propensity to save plus the marginal propensity to consume
A) equals 1.
B) equals 0.
C) equals a number that is larger the larger the household's disposable income.
D) equals a number that is smaller the larger the household's disposable income.
Answer: A

Topic: Marginal Propensities to Consume and Save
Skill: Conceptual

44) The marginal propensity to consume equals 1 minus the
A) marginal propensity to invest.
B) marginal propensity to save.
C) marginal propensity to import.
D) marginal propensity to pay taxes.
Answer: B

Topic: Slopes and Marginal Propensities
Skill: Analytical

45) If an increase in a household's disposable income from $10,000 to $12,000 boosts its consumption expenditure from $8,000 to $9,000, the
A) household is dissaving.
B) slope of the consumption function is 0.2
C) slope of the consumption function is 0.5
D) slope of the consumption function is 1000.
Answer: C

Topic: Shifts in the Consumption Function, Real Interest Rate
Skill: Analytical

46) If the real interest rate rises, the consumption function
A) shifts upward.
B) shifts downward.
C) is unaffected.
D) has a steeper slope.
Answer: B

Topic: Shifts in the Consumption Function, Real Interest Rate
Skill: Analytical

47) If the real interest rate falls, the consumption function
A) shifts upward.
B) shifts downward.
C) is unaffected.
D) has a flatter slope.
Answer: A

Topic: Shifts in the Consumption Function, Wealth
Skill: Analytical

48) If wealth increases, the consumption function
A) shifts upward.
B) shifts downward.
C) is unaffected.
D) has a steeper slope.
Answer: A

Topic: Shifts in the Consumption Function, Wealth
Skill: Analytical

49) If wealth decreases, the consumption function
A) shifts upward.
B) shifts downward.
C) is unaffected.
D) has a steeper slope.
Answer: B

Real GDP with a Fixed Price Level

Topic: Aggregate Planned Expenditure
Skill: Recognition

50) Read the two statements below and indicate if they are true or false.
I. Autonomous expenditures change when GDP changes.
II. Aggregate planned expenditure is the sum of planned consumption expenditure, investment, government purchases, and net exports.
A) I and II are both true.
B) I and II are both false.
C) I is true and II is false
D) I is false and II is true.
Answer: D

Topic: Aggregate Expenditure Curve
Skill: Conceptual

51) The curve that relates the level of total planned expenditure to the level of real GDP is the
A) equilibrium GDP curve.
B) consumption function.
C) dissavings function.
D) aggregate expenditure curve.
Answer: D

Topic: Aggregate Expenditure Curve
Skill: Recognition

52) The graph of the aggregate expenditure curve has _____ on the *y*-axis and _____ on the *x*-axis.
A) real GDP; aggregate planned expenditure
B) aggregate actual expenditure; real GDP
C) household expenditures; real GDP
D) aggregate planned expenditure; real GDP
Answer: D

Topic: Aggregate Expenditure Curve
Skill: Recognition

53) The slope of the aggregate expenditure curve equals the change in
A) planned expenditure divided by the change in real GDP.
B) autonomous expenditure divided by the change in real GDP.
C) government expenditure divided by the change in real GDP.
D) real GDP divided by the change in planned expenditure.
Answer: A

Topic: Aggregate Expenditure Curve
Skill: Conceptual

54) The slope of the aggregate expenditure curve is
A) 0.
B) greater than 0 and less than 1.
C) 1.
D) greater than 1.
Answer: B

Topic: Induced Expenditure
Skill: Conceptual

55) As a nation's GDP increases, that nation's
A) autonomous consumption increases.
B) autonomous consumption decreases.
C) exports increase.
D) imports increase.
Answer: D

Topic: Induced Expenditure
Skill: Recognition

56) Any expenditure component that depends on the level of real GDP is called
A) spurious expenditure.
B) equilibrium expenditure.
C) induced expenditure.
D) autonomous expenditure.
Answer: C

Topic: Induced Expenditure
Skill: Conceptual

57) A change in imports caused by rising U.S. incomes is
A) an increase in autonomous expenditure.
B) a decrease in autonomous expenditure.
C) an increase in induced exports.
D) a change in induced expenditure.
Answer: D

Topic: Autonomous Expenditure
Skill: Conceptual

58) Autonomous expenditure is not influenced by
A) the price level.
B) the interest rate.
C) real GDP.
D) any other variable.
Answer: C

Topic: Autonomous Expenditure
Skill: Recognition

59) Expenditure that does NOT depend on real GDP is called
A) spurious expenditure.
B) equilibrium expenditure.
C) induced expenditure.
D) autonomous expenditure.
Answer: D

Topic: Autonomous Expenditure
Skill: Recognition

60) Autonomous expenditure refers to
A) aggregate expenditure solely prompted by policy.
B) changes in short-run aggregate supply.
C) aggregate expenditure that varies because of changes in factors other than real GDP.
D) aggregate expenditure that varies because of changes in real GDP.
Answer: C

Topic: Autonomous Expenditure
Skill: Recognition

61) All else being constant, autonomous expenditure
A) increases as real GDP increases.
B) increases as real GDP decreases.
C) does not change with changes in real GDP.
D) is assumed to be zero.
Answer: C

Topic: Autonomous Expenditure
Skill: Conceptual

62) Which of the following are included in autonomous expenditure?
A) investment
B) government purchases
C) autonomous consumption expenditure
D) All of the above.
Answer: D

Topic: Autonomous Expenditure
Skill: Recognition

63) An increase in U.S. exports because of increasing foreign incomes is ____ in the United States.
A) an increase in autonomous expenditure
B) a decrease in autonomous expenditure
C) an increase in induced expenditure
D) a decrease in induced expenditure
Answer: A

Topic: Autonomous Expenditure
Skill: Recognition

64) An increase in investment by U.S. firms that is intended to maintain U.S. competitiveness in world markets is ____ in the United States.
A) an increase in autonomous expenditure
B) a decrease in autonomous expenditure
C) an increase in induced expenditure
D) a decrease in induced expenditure

Answer: A

Topic: Autonomous Expenditure
Skill: Recognition

65) Which of the following is NOT an autonomous expenditure in the aggregate expenditures model?
A) investment
B) government purchases
C) imports
D) exports

Answer: C

Topic: Autonomous Expenditure
Skill: Recognition

66) Which of the following variables is NOT assumed to be completely autonomous in the aggregate expenditure model?
A) investment
B) government purchases of goods and services
C) exports
D) imports

Answer: D

Topic: Autonomous Expenditure
Skill: Conceptual

67) A decrease in autonomous consumption will
A) shift the aggregate expenditure function downward.
B) decrease the marginal propensity to save.
C) shift the consumption function upward.
D) change the slope of the consumption function.

Answer: A

Topic: Convergence to Equilibrium
Skill: Conceptual

68) Which of the following statements is correct?
A) Actual aggregate expenditures does not always equal real GDP.
B) Planned investment exceeds actual investment when real GDP is greater than aggregate planned expenditures.
C) Actual investment exceeds planned investment when real GDP is less than aggregate planned expenditures.
D) None of the above are correct.

Answer: D

Topic: Convergence to Equilibrium
Skill: Conceptual

69) If prices are fixed, if aggregate planned expenditure exceeds real GDP, then
A) inventories decrease, signaling firms to increase production and increase real GDP.
B) inventories increase, signaling firms to decrease production and decrease real GDP.
C) profits fall, signaling firms to decrease production and decrease real GDP.
D) None of the above answers are correct.

Answer: A

Topic: Convergence to Equilibrium
Skill: Conceptual

70) If aggregate planned expenditures are less than real GDP then
A) the economy remains in disequilibrium until aggregate planned expenditures increase to the level of real GDP.
B) firms must increase their planned expenditures until aggregate planned expenditures increase to the level of real GDP.
C) firms' inventories will increase and real GDP will decrease as production falls.
D) firms' inventories will decrease and real GDP will decrease as production falls.

Answer: C

Topic: Convergence to Equilibrium
Skill: Conceptual

71) When investment is below planned investment, aggregate planned expenditure is _____ than actual aggregate expenditure and inventories are _____ than planned.
A) greater; greater
B) greater; less
C) less; greater
D) less; less
Answer: B

Topic: Convergence to Equilibrium
Skill: Conceptual

72) When investment exceeds planned investment, aggregate planned expenditure is _____ than actual aggregate expenditure and inventories are _____ than planned.
A) greater; greater
B) greater; less
C) less; greater
D) less; less
Answer: C

Topic: Convergence to Equilibrium
Skill: Conceptual

73) In the *AE* model, when aggregate output (real GDP) is greater than aggregate planned expenditure,
A) unplanned inventories are being accumulated.
B) inventories are being depleted.
C) inventories are not being changed.
D) this cannot happen, because the two variables are always equal.
Answer: A

Topic: Equilibrium Expenditure
Skill: Recognition

74) Equilibrium expenditure is defined as the level of aggregate expenditure where
A) actual aggregate expenditure equals real GDP.
B) total inventories equal zero.
C) aggregate planned expenditure equals real GDP.
D) spending equals output.
Answer: C

Topic: Equilibrium Expenditure
Skill: Conceptual

75) When the economy is in equilibrium,
A) planned investment equals actual investment.
B) planned savings will equal zero.
C) there can be no unemployment.
D) changes in autonomous spending will have no impact on national income.
Answer: A

Topic: Equilibrium Expenditure
Skill: Conceptual

76) Equilibrium expenditure occurs where the aggregate expenditure curve crosses the
A) 45-degree line.
B) horizontal axis.
C) vertical axis.
D) consumption function.
Answer: A

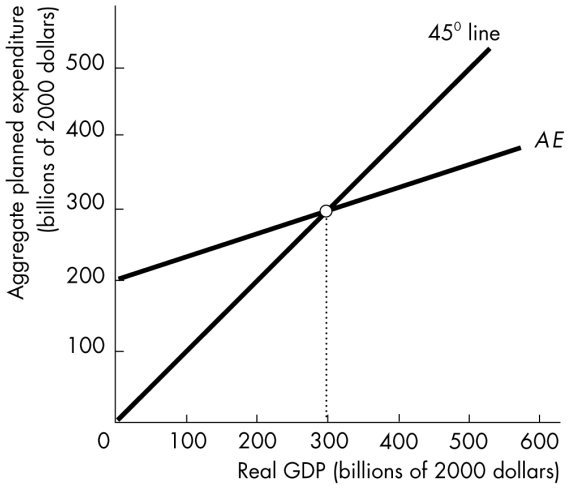
Real GDP	*C*	*I*	*G*	*NX*
2500	1430	540	400	90
2400	1360	540	400	100
2300	1290	540	400	110
2200	1220	540	400	120
2100	1150	540	400	130

Topic: Equilibrium Expenditure
Skill: Analytic

77) In the above table, *C* is consumption expenditure, *I* is investment, *G* is government purchases, and *NX* is net exports. All entries are in dollars. The equilibrium level of real GDP is
A) $2,500.
B) $2,400.
C) $2,300.
D) $2,200.
Answer: B

Topic: Slope of the *AE* Curve
Skill: Analytic

78) In the above table, *C* is consumption expenditure, *I* is investment, *G* is government purchases, and *NX* is net exports. All entries are in dollars. The slope of the aggregate expenditure function is
A) –0.10.
B) 0.10.
C) 0.60.
D) 0.70.
Answer: C



Topic: Induced Expenditure
Skill: Analytical

79) In the above figure, at the equilibrium, induced expenditure is
A) $100 billion.
B) $200 billion.
C) $300 billion.
D) some amount not given in the above answers.
Answer: A

Topic: Autonomous Expenditure
Skill: Analytical

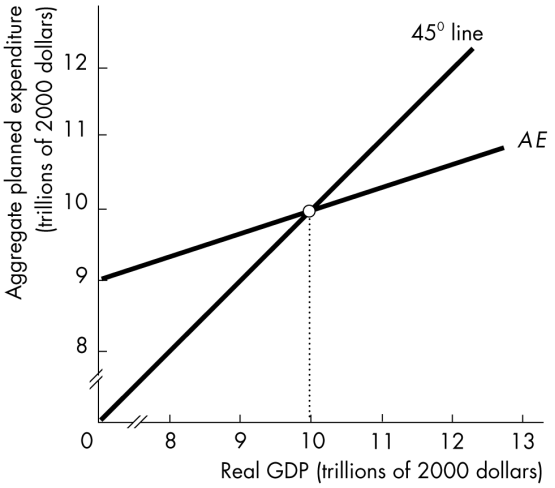
80) In the above figure, autonomous expenditure is
A) $100 billion.
B) $200 billion.
C) $300 billion.
D) some amount not given in the above answers.
Answer: B

Topic: Actual Expenditure and Planned Expenditure
Skill: Analytical

81) In the above figure, if real GDP is below $300 billion, inventories will be
A) below target levels, so firms increase production.
B) below target levels, so firms decrease production.
C) above target levels, so firms increase production.
D) above target levels, so firms decrease production.
Answer: A

Topic: Actual Expenditure and Planned Expenditure
Skill: Analytical

82) In the above figure, if real GDP is greater than $300 billion, inventories will be
A) below target levels so firms increase production.
B) below target levels so firms decrease production.
C) above target levels so firms increase production.
D) above target levels so firms decrease production.
Answer: D



Topic: Equilibrium Expenditure
Skill: Analytical

83) In the above figure, equilibrium expenditure is
A) less than $10 trillion.
B) $10 trillion.
C) more than $10 trillion.
D) some amount that cannot be determined without more information.
Answer: B

Topic: Actual Expenditure and Planned Expenditure
Skill: Analytical

84) In the above figure, if the level of real GDP is $11 trillion,
A) inventories are above the levels planned by firms.
B) inventories are below the levels planned by firms.
C) inventories equal the levels planned by firms.
D) planned expenditures are zero.
Answer: A

Topic: Actual Expenditure and Planned Expenditure
Skill: Analytical

85) In the above figure, if the level of real GDP is $9 trillion,
A) inventories are above the levels planned by firms.
B) inventories are below the levels planned by firms.
C) inventories equal the levels planned by firms.
D) planned expenditures are zero.
Answer: B

Topic: Actual Expenditure and Planned Expenditure
Skill: Conceptual

86) When aggregate planned expenditure is less than actual real GDP, unplanned
A) consumption expenditure occurs.
B) investment occurs.
C) government purchases are made.
D) exports are made.
Answer: B

Topic: Actual Expenditure and Planned Expenditure
Skill: Conceptual

87) The difference between planned and unplanned spending is _____.
A) always negative
B) inventories
C) unplanned changes in inventories
D) always positive
Answer: C

Topic: Actual Expenditure and Planned Expenditure
Skill: Conceptual

88) When there is unplanned inventory investment, aggregate planned expenditure is _____ real GDP and actual investment is _____ planned investment.
A) greater than; greater than
B) greater than; less than
C) less than; greater than
D) less than; less than
Answer: C

Topic: Actual Expenditure and Planned Expenditure
Skill: Conceptual

89) Actual expenditure might differ from planned expenditure because
A) actual consumption expenditure differs from planned consumption expenditure.
B) actual investment differs from planned investment.
C) actual government purchases differ from planned government purchases.
D) actual net exports differ from planned net exports.
Answer: B

Topic: Actual Expenditure and Planned Expenditure
Skill: Analytical

90) If real GDP is $2 billion and planned aggregate expenditure is $2.25 billion, inventories will
A) be depleted and output will increase.
B) be depleted and output will decrease.
C) pile up and output will decrease.
D) pile up and output will increase.
Answer: A

The Multiplier

Topic: The Multiplier Effect
Skill: Conceptual

91) The multiplier effect occurs because
A) changes in price levels affect our willingness to invest, consume, import and export.
B) an autonomous change in expenditure causes an induced change in consumption expenditure.
C) of government stabilization policies.
D) of income taxes.
Answer: B

Topic: The Multiplier Effect
Skill: Conceptual

92) The multiplier effect exists because a change in autonomous expenditure
A) leaves the economy in the form of imports.
B) leads to identical changes in income, which generate further spending.
C) prompts further exports.
D) will undergo its complete effect in one round.
Answer: B

Topic: The Multiplier Effect
Skill: Conceptual

93) In the short run, with fixed prices and no imports and no income taxes, a decrease in investment
A) decreases real GDP by the same amount.
B) decreases real GDP by a smaller amount.
C) decreases real GDP by a larger amount.
D) increases real GDP because of the increase in induced expenditures.
Answer: C

Topic: The Multiplier Effect
Skill: Recognition

94) If prices are fixed, an increase in aggregate expenditures results in an increase in equilibrium GDP that
A) is greater than the change in aggregate expenditure.
B) is equal to the change in aggregate expenditure.
C) is less than the change in aggregate expenditure.
D) has no necessary relationship to the size of the change in aggregate expenditure.
Answer: A

Topic: The Multiplier
Skill: Recognition

95) When prices are fixed and there are no imports or income taxes, the value of the multiplier is
A) less than one.
B) greater than one.
C) equal to one.
D) equal to zero.
Answer: B

Topic: The Multiplier Effect
Skill: Recognition

96) The change in aggregate spending that is created by a change in real GDP is the basis of the
A) law of diminishing returns.
B) multiplier.
C) one-third rule.
D) government budget deficit.
Answer: B

Topic: The Multiplier Effect
Skill: Conceptual

97) Because of the multiplier, a one-time change in expenditure will
A) have little secondary effect on income.
B) expand income by an infinite amount.
C) generate more additional income than the initial change in expenditure.
D) decrease saving and investment activity and future income.
Answer: C

Topic: The Multiplier Effect
Skill: Conceptual

98) The multiplier is greater than 1 because
A) most households are unable to save.
B) household spending exceeds income.
C) one person's spending becomes another's income.
D) corporate spending exceeds corporate income.
Answer: C

Topic: The Multiplier and the *MPC*
Skill: Conceptual

99) The multiplier is larger if the
A) marginal propensity to consume is larger.
B) marginal propensity to save is larger.
C) income tax rate is higher.
D) marginal propensity to import is larger.
Answer: A

Topic: The Multiplier and the *MPC*
Skill: Conceptual

100) The larger the *MPC*, the
A) larger the value of the multiplier.
B) smaller the value of the multiplier.
C) less likely that the multiplier will be affected.
D) more likely that the multiplier will be inconsequential.
Answer: A

Topic: The Multiplier
Skill: Conceptual
101) The expenditure multiplier equal to
A) *APC* – *APS* where *APC* is the average propensity to consume and *APS* is the average propensity to save.
B) 1/*MPS* where *MPS* is the marginal propensity to save.
C) *MPC* – *MPS* where *MPC* is the marginal propensity to consume and *MPS* is the marginal propensity to consume.
D) 1/*APS* where *APS* is the average propensity to save.
Answer: B

Topic: The Multiplier
Skill: Analytical
102) If investment increases by $300 and, in response, equilibrium aggregate expenditure increases by $600, the multiplier is
A) 0.2.
B) 0.5.
C) 2.
D) 5.
Answer: C

Topic: The Multiplier and the *MPC*
Skill: Analytical
103) If there are no income taxes or imports, the multiplier equals
A) 1/(1 – marginal propensity to consume).
B) 1/(1 – marginal propensity to save).
C) 1/(1 – marginal propensity to import).
D) 1/(1 – marginal propensity to invest).
Answer: A

Topic: The Multiplier
Skill: Analytical
104) If there are no taxes or imports and *MPC*=0.67, the multiplier is
A) 1.5.
B) 3.
C) 6.
D) 0.33.
Answer: B

Topic: The Multiplier
Skill: Analytical
105) If there are no taxes or imports and *MPC*=0.75, the multiplier equals
A) 0.25.
B) 1.33.
C) 4.0.
D) 6.0.
Answer: C

Topic: The Multiplier
Skill: Analytical
106) If there are no taxes or imports and *MPC*=0.5, the multiplier equals
A) 0.5.
B) 5.0.
C) 6.0.
D) 2.0.
Answer: D

Topic: The Multiplier
Skill: Analytical
107) Suppose that in 2002 the economy has an *MPC* of 0.67 and in 2003 the *MPC* changes to 0.8. Which of the following best describes what happens to the multiplier?
A) It rises from 3 to 5.
B) It falls from 5 to 3.
C) It rises from 1.25 to 1.49.
D) It falls from 1.49 to 1.25.
Answer: A

Topic: The Multiplier
Skill: Analytical
108) Suppose that *MPC* = 0.75 and there are no taxes or imports. Then a $100 increase in autonomous spending causes equilibrium expenditure to
A) decrease by $400.
B) increase by $400.
C) decrease by $750.
D) increase by $750.
Answer: B

Topic: The Multiplier
Skill: Analytical

109) Suppose that the *MPC* = 0.75 and there are no taxes or imports. Then a $100 decrease in autonomous spending causes equilibrium expenditure to
A) decrease by $400.
B) increase by $400.
C) decrease by $750.
D) increase by $750.
Answer: A

Topic: The Multiplier
Skill: Analytical

110) Suppose the *MPC* = 0.67 and there are no taxes or imports. Then a $100 decrease in autonomous spending causes equilibrium expenditure to
A) decrease by $200.
B) increase by $200.
C) decrease by $300.
D) increase by $300.
Answer: C

Topic: The Multiplier
Skill: Analytical

111) Suppose the *MPC* = 0.67 and there are no taxes or imports. Then a $100 increase in autonomous spending causes equilibrium expenditure to
A) decrease by $200.
B) increase by $200.
C) decrease by $300.
D) increase by $300.
Answer: D

Topic: The Multiplier
Skill: Analytical

112) Suppose the marginal propensity to consume is equal to 0.8 and there are no income taxes or imports. If prices remain constant and government purchases increase by $10 billion, what will be the change in real GDP?
A) $8 billion
B) $2 billion
C) $10 billion
D) $50 billion
Answer: D

Topic: The Multiplier
Skill: Quantitative

113) Given an *MPC* of 0.6, if there are no income taxes or imports, the value of the multiplier is
A) 2.5.
B) 0.4.
C) 1.67.
D) 4.0.
Answer: A

Topic: The Multiplier
Skill: Analytical

114) If the value of the multiplier is 3.33 and there are no imports or income taxes, then the value of the
A) *MPC* is 0.7.
B) *MPS* is 0.3.
C) Both of the above answers are correct.
D) None of the above answers are correct.
Answer: C

Topic: The Multiplier
Skill: Analytical

115) Given an *MPC* of 0.80, if there are no income taxes or imports and prices are constant, then when investment increases by $50 million, equilibrium GDP would
A) increase by $50 million.
B) increase by $250 million.
C) increase by $400 million.
D) To answer the question more information on income is needed.
Answer: B

Topic: The Multiplier
Skill: Analytical

116) In a simple economy in which prices are constant and with no income taxes or imports, the marginal propensity to save is 0.2. If exports increase $50, what impact will that have on aggregate expenditure?
A) increase by $250
B) increase by $100
C) decrease by $250
D) decrease by $100
Answer: A

Topic: Slope of the Aggregate Expenditure Curve and The Multiplier
Skill: Conceptual

117) In general, the steeper the aggregate expenditure curve, the
A) greater autonomous expenditure.
B) lower the marginal propensity to consume.
C) larger the multiplier.
D) smaller the multiplier.

Answer: C

Topic: Slope of the Aggregate Expenditure Curve and The Multiplier
Skill: Conceptual

118) In general, the flatter the aggregate expenditure curve, the
A) greater the autonomous expenditure.
B) larger the marginal propensity to consume.
C) larger the multiplier.
D) smaller the multiplier.

Answer: D

Real GDP (trillions of 2000 dollars)	Aggregate expenditure (trillions of 2000 dollars)
0	0.3
1.0	1.2
2.0	2.1
3.0	3.0
4.0	3.9
5.0	4.8

Topic: Autonomous Expenditure
Skill: Analytical

119) The data in the above table indicate that autonomous expenditure is
A) $0.3 trillion.
B) $3.0 trillion.
C) $4.8 trillion.
D) None of the above answers is correct.

Answer: A

Topic: Equilibrium Expenditure
Skill: Analytical

120) In the above table, equilibrium expenditure is
A) $0.3 trillion.
B) $3.0 trillion.
C) $4.8 trillion.
D) None of the above answers are correct.

Answer: B

Topic: Slope of the Aggregate Expenditure Curve and The Multiplier
Skill: Analytical

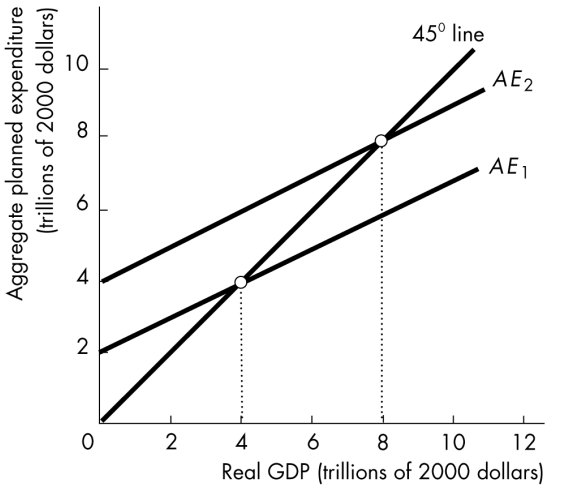
121) The data in the above table indicate that the slope of the *AE* curve is
A) 0.30.
B) 0.50.
C) 0.90.
D) None of the above answers are correct.

Answer: C

Topic: The Multiplier
Skill: Analytical

122) In the above table, suppose investment decreases by $0.1 trillion. The multiplier equals
A) 5.0.
B) 9.0.
C) 10.0.
D) None of the above answers are correct.

Answer: C



Topic: Autonomous Expenditure
Skill: Analytical

123) In the above figure, autonomous expenditure along AE_1 equals
A) $2 trillion.
B) $4 trillion.
C) $8 trillion.
D) an amount not given in the above answers.

Answer: A

Topic: Autonomous Expenditure
Skill: Analytical

124) In the above figure, autonomous expenditure along AE_2 equals

A) $2 trillion.
B) $4 trillion.
C) $8 trillion.
D) an amount not given in the above answers.

Answer: B

Topic: Equilibrium Expenditure
Skill: Analytical

125) In the above figure, equilibrium expenditure along AE_2 is

A) $2 trillion.
B) $4 trillion.
C) $8 trillion.
D) an amount not given in the above answers.

Answer: C

Topic: Equilibrium Expenditure
Skill: Analytical

126) In the above figure, equilibrium expenditure along AE_1 is

A) $2 trillion.
B) $4 trillion.
C) $8 trillion.
D) an amount not given in the above answers.

Answer: B

Topic: Slope of the Aggregate Expenditure Curve and The Multiplier
Skill: Analytical

127) In the above figure, the multiplier is

A) 1.5.
B) 2.0.
C) 2.5.
D) 3.0.

Answer: B

Topic: Slope of the Aggregate Expenditure Curve and The Multiplier
Skill: Analytical

128) The presence of income taxes and imports cause the slope of the aggregate expenditure curve to be

A) the same as it would be without income taxes and exports.
B) steeper than it would be without income taxes and exports.
C) flatter than it would be without income taxes and exports.
D) probably different than it would be without income taxes and exports but income taxes make it steeper while imports make it flatter.

Answer: C

Topic: Slope of the Aggregate Expenditure Curve
Skill: Conceptual

129) The relationship between net exports and GDP makes the slope of the aggregate expenditure curve

A) flatter than it would be otherwise.
B) steeper than it would be otherwise.
C) neither flatter nor steeper than it would be otherwise.
D) steeper at low levels of GDP and flatter at high levels of GDP.

Answer: A

Topic: The Multiplier and Income Taxes
Skill: Conceptual

130) Imports

A) increase the size of the multiplier because imports make disposable income less than real GDP.
B) decrease the size of the multiplier because spending on imports does not increase real GDP in the domestic nation.
C) increase the size of the multiplier because imports are paid for by exports.
D) decrease the size of the multiplier because imports lead to an increase in taxes and government purchases.

Answer: B

Topic: The Multiplier, Imports, and Income Taxes
Skill: Conceptual

131) Which of the following will affect the size of the multiplier?
I. marginal propensity to import
II. marginal propensity to consume
III. marginal income tax rate
A) I only
B) II only
C) I and II only
D) I, II, and III

Answer: D

Topic: The Multiplier, Imports, and Income Taxes
Skill: Analytical

132) The presence of income taxes and imports cause the multiplier to
A) fall in value but remain positive.
B) rise in value.
C) not change in value.
D) become negative.

Answer: A

Topic: The Multiplier and Business Cycle Turning Points
Skill: Conceptual

133) Business cycle turning points are
A) unaffected by, and unrelated to the multiplier.
B) easy to predict.
C) brought about by changes in autonomous expenditures that are then subject to the multiplier effect.
D) None of the above are correct.

Answer: C

Topic: The Multiplier and Business Cycle Turning Points
Skill: Conceptual

134) Which of the following does NOT occur as the economy moves from an expansion to a recession?
A) An initial decrease in autonomous spending is the trigger that creates the business cycle turning point.
B) The change in planned spending exceeds the change in real GDP.
C) The multiplier process reinforces any decrease in spending and pushes the economy into recession.
D) Incomes fall during recessions as firms cut production in response to unplanned increases in inventories.

Answer: B

Topic: The Multiplier and Business Cycle Turning Points
Skill: Conceptual

135) Which of the following is incorrect?
A) Expansions usually begin with an increase in autonomous spending.
B) Firms experience unplanned decreases in inventories as expansions begin.
C) Firms increase production in response to unplanned decreases in inventories.
D) The multiplier dampens the increase in income that occurs during expansions and brings the economy to a new equilibrium GDP.

Answer: D

The Multiplier and the Price Level

Topic: Aggregate Demand Curve and the Price Level
Skill: Recognition

136) The wealth effect of an increase in the price level results from a
A) change in the price of current goods relative to future goods.
B) change in the purchasing power of assets.
C) change in the price of foreign goods relative to domestic goods.
D) Both answers B and C are correct.

Answer: B

Topic: Aggregate Demand Curve and the Price Level
Skill: Recognition

137) The intertemporal substitution effect of a change in the price level results from a
A) change in the price of current goods relative to future goods.
B) change in the purchasing power of wealth.
C) change in the price of foreign goods relative to domestic goods.
D) Both answers B and C are correct.
Answer: A

Topic: Aggregate Demand Curve and the Price Level
Skill: Recognition

138) The international substitution effect of a change in the price level results from a
A) change in the price of current goods relative to future goods.
B) change in the purchasing power of wealth.
C) change in the price of foreign goods relative to domestic goods.
D) Both answers B and C are correct.
Answer: C

Topic: *AE* Curve, *AD* Curve, and the Price Level
Skill: Conceptual

139) Because the short-run aggregate expenditure model assumes that the price level is _____, its predicted effect of changes in autonomous expenditure on equilibrium output is _____ than the prediction of the *AD/SAS* model.
A) fixed; greater
B) fixed; less
C) flexible; greater
D) flexible; less
Answer: A

Topic: *AE* Curve, *AD* Curve, and the Price Level
Skill: Conceptual

140) A fall in the price level
A) shifts the aggregate expenditure curve upward and increases the quantity of real GDP demanded.
B) shifts the aggregate demand curve rightward and increases equilibrium GDP.
C) decreases aggregate planned expenditures and shifts the aggregate demand curve leftward.
D) shifts both the aggregate expenditures curve and aggregate demand curve upward.
Answer: A

Topic: *AE* Curve, *AD* Curve, and the Price Level
Skill: Conceptual

141) Any change in the price level will result in a
A) shift in the *AE* curve and a movement along the *AD* curve.
B) movement along the *AE* curve and a shift of the *AD* curve.
C) shift in the *AE* and *AD* curves in the same direction.
D) shift in the *AE* and *AD* curves in opposite directions.
Answer: A

Topic: *AE* Curve, *AD* Curve, and the Price Level
Skill: Conceptual

142) If the price level increases, the *AE* curve shifts
A) upward and the *AD* curve shifts leftward.
B) downward and the *AD* curve shifts rightward.
C) upward and we move along the *AD* curve.
D) downward and we move along the *AD* curve.
Answer: D

Topic: Aggregate Expenditure and the Price Level
Skill: Conceptual

143) An increase in the price level decreases planned expenditure because
A) real wealth decreases, thus decreasing consumption expenditure.
B) current prices rise relative to future prices, increasing consumption expenditure.
C) domestic prices rise relative to foreign prices, increasing net exports.
D) the real interest rate rises, increasing consumption expenditure.
Answer: A

Topic: Aggregate Expenditure and the Price Level
Skill: Conceptual

144) An increase in the price level decreases planned expenditures because
A) real wealth increases, decreasing consumption expenditure.
B) current prices rise relative to future prices, decreasing consumption expenditure.
C) domestic prices rise relative to foreign prices, increasing net exports.
D) the real interest rate rises, increasing consumption expenditure.
Answer: B

Topic: Aggregate Demand
Skill: Conceptual

145) When autonomous expenditure changes, the horizontal distance by which the aggregate demand curve shifts
A) depends on the size of the multiplier.
B) depends on the size of the wealth effect.
C) is accentuated by automatic stabilizers.
D) is determined by the inverse of the multiplier.
Answer: A

Topic: Change in Aggregate Demand
Skill: Conceptual

146) In general, a decrease in autonomous expenditure that is NOT caused by a price change results in a
A) rightward shift of the *AD* curve.
B) movement upward along the *AD* curve.
C) movement downward along the *AD* curve.
D) leftward shift of the *AD* curve.
Answer: D

Topic: Change in Aggregate Demand
Skill: Conceptual

147) In general, an increase in autonomous expenditure that is NOT created by a price change results in a
A) rightward shift of the *AD* curve.
B) movement upward along the *AD* curve.
C) movement downward along the *AD* curve.
D) leftward shift of the *AD* curve.
Answer: A

Topic: Long-Run Multiplier
Skill: Conceptual

148) After an increase in autonomous spending, in the long run, changes in the price level
A) will make the *AE* curve steeper.
B) will make the *AE* curve flatter.
C) will reduce the effect of the multiplier.
D) will not affect the multiplier.
Answer: C

Topic: Long-Run Multiplier
Skill: Conceptual

149) In the long run, the multiplier
A) is greater than 1 because of the position and slope of the *SAS* curve.
B) is twice the short-run multiplier.
C) is 0.
D) depends on the slope of the *AD* curve.
Answer: C

The Algebra of the Multiplier

Topic: The Algebra of the Multiplier
Skill: Analytical

150) If $AE = 50 + 0.6Y$ and $Y = 200$, where Y is real GDP, inventory
A) increases are 75 above their target level.
B) increases are 30 above their target level.
C) decreases are 75 below their target level.
D) decreases are 30 below their target level.
Answer: B

Topic: The Algebra of the Multiplier
Skill: Analytical

151) If $AE = 150 + 0.6Y$ and $Y = 200$, where Y is real GDP, inventories are
A) accumulating 75 above their target.
B) accumulating 30 above their target.
C) falling 70 below their target.
D) falling 30 below their target.
Answer: C

Consumption expenditure: $C = 8 + 0.7Y$
Investment: $I = 5$
Government purchases: $G = 7$
Exports: $X = 10$
Imports: $M = 0.2Y$

Topic: The Algebra of the Multiplier
Skill: Analytical

152) The equations above describe the economy of La La Land. What is the equation for the aggregate expenditure curve?
A) $AE = 13 + 0.5Y$.
B) $AE = 30 - 0.5Y$.
C) $AE = 30 + 0.5Y$.
D) $AE = 30 + 0.9Y$.
Answer: C

Topic: The Algebra of the Multiplier
Skill: Analytical

153) The equations above describe the economy of La La Land. What is the equilibrium level of expenditure?
A) 60.
B) 90.
C) 30.
D) 29.
Answer: A

Topic: The Algebra of the Multiplier
Skill: Analytical

154) The equations above describe the economy of La La Land. What is the equilibrium level of consumption expenditure?
A) 50.
B) 60.
C) 40.
D) None of the above answers are correct.
Answer: A

Consumption function: $C = 600 + 0.8Y$
Aggregate expenditure function: $AE = 1000 + 0.5Y$

Topic: The Algebra of the Multiplier
Skill: Analytical

155) Based on the two equations above, autonomous aggregate expenditure is
A) 0.8.
B) 600.
C) 1,000.
D) 0.5.
Answer: C

Topic: The Algebra of the Multiplier
Skill: Analytical

156) Based on the two equations above, the marginal propensity to consume is
A) 0.8.
B) 600.
C) 1,000.
D) 0.5.
Answer: A

Topic: The Algebra of the Multiplier
Skill: Analytical

157) Based on the two equations above, the slope of the aggregate expenditure curve is
A) 0.8.
B) 600.
C) 1,000.
D) 0.5.
Answer: D

Topic: The Algebra of the Multiplier
Skill: Analytical

158) Based on the two equations above, equilibrium expenditure is
A) 1,000.
B) 1,600.
C) 2,000.
D) 3,000.
Answer: C

Study Guide Questions

Topic: Study Guide Question, Consumption Function
Skill: Conceptual

159) Consumption expenditure decreases when ____ decreases.
A) the interest rate
B) the price level
C) disposable income
D) saving
Answer: C

Topic: Study Guide Question, Shifts in the Consumption Function
Skill: Conceptual

160) Which of the following conditions shifts the consumption function upward?
A) A decrease in current disposable income.
B) A decrease in future expected income.
C) An increase in wealth.
D) A decrease in wealth.
Answer: C

Topic: Study Guide Question, Consumption Function and Saving Function
Skill: Conceptual

161) A decrease in expected future income _____ consumption expenditure and _____ saving.
A) increases; increases
B) increases; decreases
C) decreases; increases
D) decreases; decreases
Answer: C

Topic: Study Guide Question, Autonomous Expenditure
Skill: Conceptual

162) A decrease in autonomous expenditure shifts the *AE* curve
A) downward and leaves its slope unchanged.
B) downward and makes it steeper.
C) downward and makes it flatter.
D) upward and makes it steeper.
Answer: A

Topic: Study Guide Question, The Multiplier Effect
Skill: Analytical

163) If investment increases by $150 and, in response, equilibrium expenditure rises by $600,
A) the multiplier is 0.25.
B) the multiplier is 4.0.
C) the *MPC* is 4.
D) the slope of the *AE* curve is 3.0.
Answer: B

Topic: Study Guide Question, Aggregate Demand and the Price Level
Skill: Conceptual

164) A fall in the price level shifts the *AE* curve _____ and _____ equilibrium expenditure.
A) upward; increases
B) upward; decreases
C) downward; increases
D) downward; decreases
Answer: A

Topic: Study Guide Question, The Multiplier and Aggregate Demand
Skill: Analytical

165) If the multiplier is 4.0 and, owing to a decrease in expected future profit, investment decreases by $2.5 billion, the *AD* curve
A) shifts rightward by $10 billion.
B) shifts rightward by less than $10 billion.
C) shifts leftward by $10 billion.
D) shifts leftward by more than $30 billion.
Answer: C

Topic: Study Guide Question, Short-Run Multiplier
Skill: Analytical

166) The multiplier is 2.5 and the *SAS* curve is upward sloping. Investment increases by $20 billion. In the short run, equilibrium real GDP will
A) increase by $50 billion.
B) increase by less than $50 billion.
C) decrease by $50 billion.
D) decrease by less than $50 billion.
Answer: B

Topic: Study Guide Question, Long-Run Multiplier
Skill: Analytical

167) Say that the multiplier is 5.0 and investment increases by $30 billion. If potential real GDP is unaffected, in the long run, equilibrium real GDP will
A) increase by $50 billion.
B) increase by more than $50 billion.
C) increase by less than $50 billion.
D) not change.
Answer: D

MyEconLab Questions

Topic: Expenditure Plans
Level 1: Definitions and Concepts

168) The sum of planned consumption expenditure, planned investment, planned government purchases, and planned net exports is ____.
A) aggregate expenditure
B) real GDP
C) aggregate planned expenditure
D) the expenditure approach to real GDP
Answer: C

Topic: Consumption Function
Level 1: Definitions and Concepts

169) The consumption function is the relationship between consumption expenditure and ____, other things remaining the same.
A) potential GDP
B) disposable income
C) saving
D) the 45 degree line
Answer: B

Topic: Marginal Propensity to Consume
Level 1: Definitions and Concepts

170) The marginal propensity to consume is the ____.
A) fraction of total disposable income consumed
B) fraction of GDP consumed
C) fraction of a change in disposable income that is consumed.
D) total amount of disposable income consumed
Answer: C

Topic: Slopes and Marginal Propensities
Level 1: Definitions and Concepts

171) The marginal propensity to save is ____.
A) always greater than the marginal propensity to consume
B) equal to the slope of the saving function
C) equal to 1 plus the slope of the consumption function
D) equal to the inverse of the marginal propensity to consume
Answer: B

Topic: Marginal Propensity to Import
Level 1: Definitions and Concepts

172) The marginal propensity to import is the ____ that is spent on imports.
A) fraction of an increase in real GDP
B) total amount of real GDP
C) total amount of potential GDP
D) fraction of an increase in potential GDP
Answer: A

Topic: Autonomous Expenditures
Level 1: Definitions and Concepts

173) The part of aggregate planned expenditure that does not vary with real GDP ____.
A) equals equilibrium expenditure
B) is autonomous expenditure
C) is induced expenditure
D) equals zero
Answer: B

Topic: Induced Expenditures
Level 1: Definitions and Concepts

174) Induced expenditure includes ____.
A) induced consumption and government purchases
B) induced consumption expenditure plus imports
C) autonomous expenditure
D) induced consumption expenditure minus imports
Answer: B

Topic: Equilibrium Expenditure
Level 1: Definitions and Concepts

175) All of the following statements about equilibrium expenditure are true EXCEPT ____.
A) aggregate planned expenditure equals real GDP
B) actual investment is less than planned investment
C) aggregate planned expenditure equals actual aggregate expenditure
D) unplanned inventory investment is zero
Answer: B

Topic: The Multiplier
Level 1: Definitions and Concepts
176) The multiplier is the amount by which ____ is multiplied to determine ____.
A) autonomous expenditure; real GDP
B) induced expenditure; real GDP
C) the change in autonomous expenditure; the change in equilibrium expenditure
D) the change in induced expenditure; the change in equilibrium expenditure
Answer: C

Topic: The Multiplier
Level 1: Definitions and Concepts
177) The multiplier is greater than 1 because the change in autonomous expenditure leads to ____.
A) more investment
B) more saving
C) less consumption expenditure
D) more induced expenditure
Answer: D

Topic: Slopes and Marginal Propensities
Level 2: Using Definitions and Concepts
178) Which of the following events will make the consumption function steeper?
A) An increase in disposable income
B) An increase in real GDP
C) An increase in the marginal propensity to consume
D) An increase in unplanned inventory investment
Answer: C

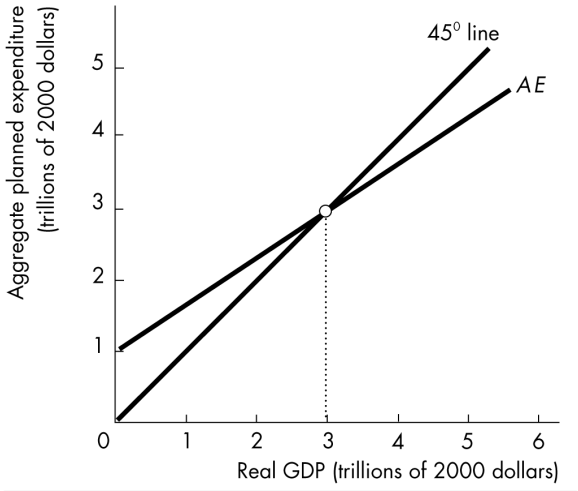
Topic: Consumption Function
Level 2: Using Definitions and Concepts
179) There is a movement along the consumption function shifts if there is ____.
A) an increase in autonomous consumption
B) a decrease in the real interest rate
C) an increase in the expected future income
D) an increase in disposable income
Answer: D

Topic: Slopes and Marginal Propensities
Level 2: Using Definitions and Concepts
180) If the slope of a saving function is 0.27, then the marginal propensity to ____.
A) import is less than 0.27
B) save is 0.73
C) consume is 0.73
D) consume is 0.27
Answer: C

Topic: Consumption Function
Level 2: Using Definitions and Concepts
181) An increase in expected future income ____.
A) decreases consumption expenditure
B) increases saving
C) shifts the consumption function upward
D) shifts the saving function upward
Answer: C

Topic: Saving Function
Level 2: Using Definitions and Concepts
182) As disposable income increases, there is a ____ the saving function.
A) leftward shift of the
B) movement along
C) rightward shift of
D) change in the slope of
Answer: B

Topic: Aggregate Expenditure Curve
Level 2: Using Definitions and Concepts
183) As autonomous expenditure decreases, ____.
A) the *AE* curve shifts downward
B) there is a movement down along the *AE* curve
C) the *AE* curve becomes less steep
D) the *AE* curve shifts upward
Answer: A



Topic: Actual Expenditure and Planned Expenditure
Level 2: Using Definitions and Concepts

184) The figure shows Tropical Isle's aggregate planned expenditure curve. When aggregate planned expenditure is 4 trillion dollars, aggregate planned expenditure is ____ than real GDP, firms' inventories ____, and firms ____ their production.

A) greater; increase; decrease
B) less; decrease; increase
C) less; increase; decrease
D) greater; decrease; increase

Answer: D

Topic: The Multiplier
Level 2: Using Definitions and Concepts

185) Suppose the price level is fixed. If investment increases by $1 million, and in response equilibrium expenditure increases by $10 million, then ____.

A) the slope of the *AE* curve is 0.1.
B) the multiplier is 10.0.
C) the multiplier is 0.1.
D) both the marginal propensity to consume and the multiplier are 0.1.

Answer: B

Topic: The Multiplier
Level 2: Using Definitions and Concepts

186) The larger the marginal propensity to save, ____.

A) the greater is the value of the multiplier
B) the smaller is slope of the saving function
C) the steeper is the consumption function
D) the smaller is the value of the multiplier

Answer: D

Topic: *AE*, *AD*, and the Price Level
Level 2: Using Definitions and Concepts

187) An increase in ____ shifts the *AE* curve ____ and an increase in ____ shifts the aggregate demand curve ____.

A) autonomous expenditure; upward; the price level; leftward
B) the price level; downward; autonomous expenditure; rightward
C) the price level; upward; autonomous expenditure; leftward
D) autonomous expenditure; upward; the price level; rightward

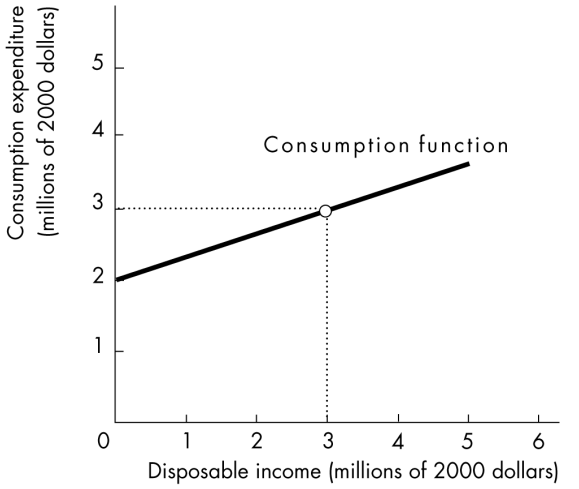
Answer: B

Topic: Consumption and Saving
Level 3: Calculations and Predictions

188) Disposable income is $6 billion and planned saving is $2 billion. What is the value of planned consumption expenditure?

A) $8 billion
B) 0.33
C) 0.67
D) $4 billion

Answer: D



Topic: Slopes and Marginal Propensities
Level 3: Calculations and Predictions

189) The figure above illustrates an economy's consumption function. What is the marginal propensity to consume in this economy?
A) 0.67
B) 1.00
C) 0.75
D) 0.33
Answer: A

Topic: Slopes and Marginal Propensities
Level 3: Calculations and Predictions

190) The figure above illustrates an economy's consumption function. What is the marginal propensity to save in this economy?
A) 0.67
B) 1.00
C) 0.75
D) 0.33
Answer: D

Topic: Consumption Function
Level 3: Calculations and Predictions

191) The figure above illustrates an economy's consumption function. What is autonomous consumption in this economy?
A) $0
B) $2 million
C) $3 million
D) None of the above answers is correct.
Answer: B

Topic: Actual Expenditure and Planned Expenditure
Level 3: Calculations and Predictions

192) Real GDP equals $20 billion and aggregate planned expenditure is $30 billion. There is an unplanned ____ in inventories of ____ and real GDP will ____.
A) increase; $10 billion; increase
B) increase; $50 billion; decrease
C) decrease; $10 billion; increase
D) decrease; $10 billion; decrease
Answer: C

Topic: The Multiplier
Level 3: Calculations and Predictions

193) If a $75 billion increase in autonomous expenditure increases equilibrium expenditure by $150 billion, then the multiplier is ____.
A) $225 billion
B) 0.625
C) $75 billion
D) 2
Answer: D

Topic: The Multiplier and the *MPS*
Level 3: Calculations and Predictions

194) An economy has no imports and no taxes. The marginal propensity to save is 0.1. A ____ increase in autonomous expenditure increases equilibrium expenditure by $60 billion and the multiplier is ____.
A) $60 billion; 5
B) $60 billion; 10
C) $12 billion; 5
D) $6 billion; 10
Answer: D

Topic: Slope of the Aggregate Expenditure Curve
Level 3: Calculations and Predictions

195) The slope of the aggregate expenditure curve increases when the marginal propensity to consume ____ or the marginal propensity to import ____.
A) increases; decreases
B) decreases; increases
C) decreases; decreases
D) increases; increases
Answer: A

Topic: The Multiplier and Business Cycles
Level 3: Calculations and Predictions

196) You observe that unplanned inventories are increasing. You predict that there will be ____.
A) a business cycle
B) an expansion
C) a trough
D) a recession
Answer: D

Topic: Long-Run Multiplier
Level 3: Calculations and Predictions

197) When the economy is at full employment and investment increases, the price level will ____ and in the long run real GDP will____.
A) increase; increase
B) decrease; not change
C) decrease; decrease
D) increase; not change
Answer: D

Real GDP	*C*	*I*	*G*
0	0.3	0.4	0.5
1	1.0	0.4	0.5
2	1.7	0.4	0.5
3	2.4	0.4	0.5
4	3.1	0.4	0.5
5	3.8	0.4	0.5
6	4.5	0.4	0.5
7	5.2	0.4	0.5

Topic: Equilibrium Expenditure
Level 4: Advanced Calculations and Predictions

198) The table above gives the components of aggregate planned expenditure in the economy of Sher. Each entry is in billions of 2000 dollars. Equilibrium expenditure occurs when real GDP equals ____.
A) $2 billion
B) $3 billion
C) $4 billion
D) $5 billion
Answer: C

Topic: Slope of the Aggregate Expenditure Curve
Level 4: Advanced Calculations and Predictions

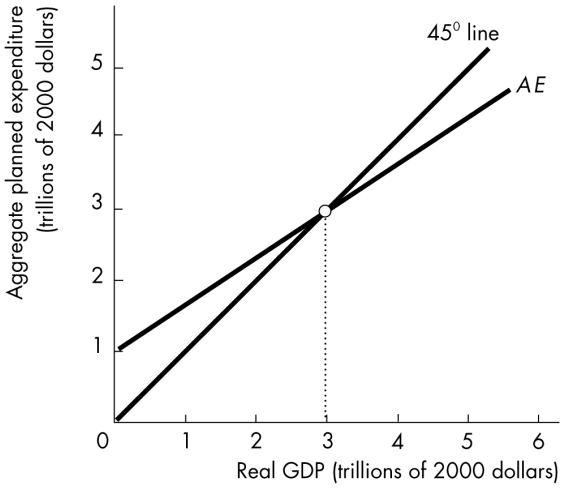
199) The table above gives the components of aggregate planned expenditure in the economy of Sher. Each entry is in billions of 2000 dollars. Autonomous expenditure is ____ and the slope of the aggregate expenditure curve is ____.
A) $1.2 billion; 0.7
B) $2.4 billion; 0.3
C) zero; 0.3
D) $3 billion; 0.7
Answer: A

Topic: Slope of the Aggregate Expenditure Curve and The Multiplier
Level 4: Advanced Calculations and Predictions

200) The table above gives the components of aggregate planned expenditure in the economy of Sher. Each entry is in billions of 2000 dollars. If investment increases by $0.3 billion, equilibrium expenditure increases to ____ and the multiplier is ____.
A) $3 billion; −10/3
B) $4 billion; 0
C) $5 billion; 5/3
D) $5 billion; 10/3
Answer: D

Topic: The Multiplier
Level 4: Advanced Calculations and Predictions

201) The table above gives the components of aggregate planned expenditure in the economy of Sher. Each entry is in billions of 2000 dollars. The multiplier is ____, and for equilibrium expenditure to decrease by $1 billion, autonomous expenditure must decrease by ____.
A) 3.3; $0.3 billion
B) 1; $1 billion
C) 0.3; $0.3 billion
D) zero; $1 billion
Answer: A



Topic: Actual Expenditure and Planned Expenditure
Level 4: Advanced Calculations and Predictions

202) The figure above shows the economy of Tropical Isle. The price level is 100. When aggregate planned expenditure equals $2 trillion seashells, aggregate planned expenditure is ____ than real GDP, there is an unplanned ____ in inventories, and real GDP will ____.
A) less; decrease; increase
B) greater; increase; decrease
C) less; increase; decrease
D) greater; decrease; increase
Answer: D

Topic: The Aggregate Expenditure Curve
Level 4: Advanced Calculations and Predictions

203) An increase in autonomous expenditure will ____ the aggregate expenditure curve and an increase in the marginal propensity to save will ____ the aggregate expenditure curve, all other things remaining the same.
A) shift; shift
B) shift; decrease the slope of
C) increase the slope of; shift
D) increase the slope of; decrease the slope of
Answer: B

Topic: Slope of the Aggregate Expenditure Curve and The Multiplier
Level 4: Advanced Calculations and Predictions

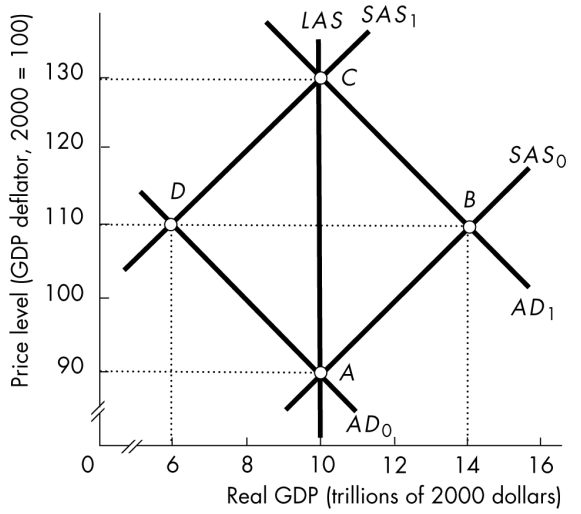
204) The ____ the marginal propensity to save, the ____ is the slope of the aggregate expenditure curve and the ____ is the multiplier.
A) larger; greater; larger
B) larger; greater; smaller
C) larger; lower; larger
D) smaller; greater; larger
Answer: D

Topic: The Multiplier
Level 4: Advanced Calculations and Predictions

205) The multiplier is 2. A decrease in investment of $6 billion will shift the aggregate demand curve ____ by ____.
A) leftward; $3 billion
B) leftward; $12 billion
C) rightward; $3 billion
D) rightward; $12 billion
Answer: B

Topic: The Multiplier and the Price Level
Level 4: Advanced Calculations and Predictions

206) The multiplier is 2. If investment decreases by $6 billion and the *SAS* curve slopes upward, then in the short run, real GDP will decrease by ____.
A) $12 billion
B) less than $12 billion
C) more than $12 billion
D) None of the above answers is correct because real GDP will increase.
Answer: B



Topic: Long-Run Multiplier
Level 4: Advanced Calculations and Predictions

207) An economy is at point *A* in the figure. Investment increases. The economy will move to point _____ in the short run and to point _____ in the long run.

A) *D*; *C*
B) *D*; *A*
C) *B*; *C*
D) *B*; *A*

Answer: C