

Answer All questions on ANSWER SHEET

1. The consumption function
 - A) describes the relation between desired consumption expenditure and the factors that determine it.
 - B) refers to the relation between consumption expenditure and prices.
 - C) is relatively unimportant in macroeconomics, because consumption is such a small component of aggregate demand.
 - D) and aggregate demand are the same.

2. All but which one of the following apply to the marginal propensity to consume?
 - A) It is calculated by dividing a change in consumption by the change in disposable income that brought it about.
 - B) It is assumed to be less than unity.
 - C) $MPC = \frac{C_1 - C_0}{Y_1^d - Y_0^d}$
 - D) It is assumed to be zero at low levels of income.

3. Total consumption expenditure divided by total disposable income is called
 - A) the consumption function.
 - B) the marginal propensity to consume.
 - C) the average propensity to consume.
 - D) disposable income.

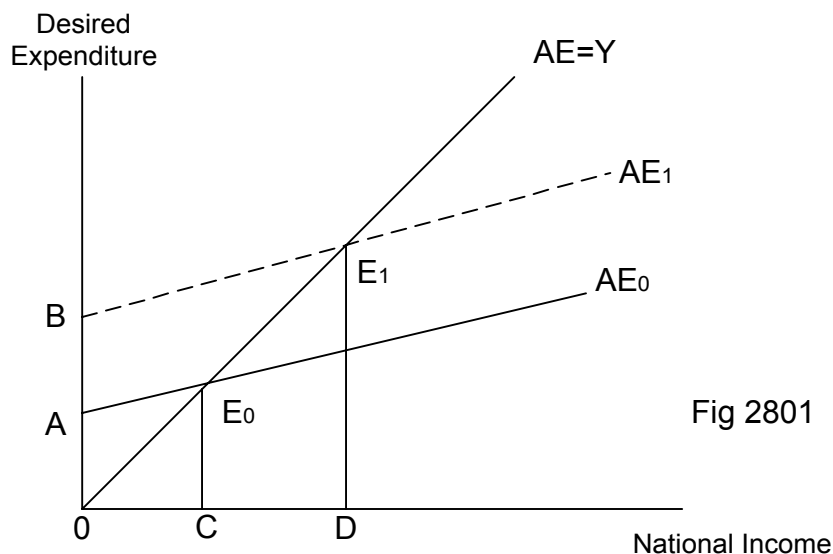
4. When the average propensity to consume is unity, all of the following are true except
 - A) the average propensity to save is zero.
 - B) the consumption function intersects the 45° line.
 - C) the marginal propensity to save is equal to zero.
 - D) desired savings are zero.

5. The average propensity to consume (APC)
 - A) is calculated by dividing total income by total consumption.
 - B) is always assumed to be less than unity.
 - C) plus the average propensity to save (APS) must sum to unity.
 - D) is assumed to vary in direct proportion to income.

6. Saving
 - A) is an addition to one's wealth.
 - B) is gross investment minus net investment.
 - C) is that income which is consumed.
 - D) cannot be negative.

7. If the aggregate-desired-expenditure line is below the 45-degree line at the current level of national income, the amount by which the 45-degree line exceeds the aggregate desired expenditure line represents
- A) desired accumulation of inventories.
 - B) desired decumulation of inventories.
 - C) the amount by which output exceeds desired expenditures.
 - D) the output gap.
8. National income _____ taxes _____ transfers equals disposable income.
- A) plus, plus
 - B) plus, minus
 - C) minus, plus
 - D) minus, minus
9. A government's fiscal policy affects _____ of equilibrium national income.
- A) the level and composition
 - B) the level but not the composition
 - C) the composition but not the level
 - D) neither the composition nor the level
10. "Net taxes" are defined as total tax revenues
- A) minus government purchases.
 - B) minus all government expenditures.
 - C) plus transfer payments.
 - D) minus transfer payments.
11. Over the last twenty years, public saving in Canada has been
- A) consistently positive.
 - B) consistently near zero.
 - C) consistently negative.
 - D) fluctuating between positive and negative.
12. Suppose $G = 300$ and the income tax rate is 14 percent. When $Y = 2000$, national saving is _____, denoting a budget _____.
- A) 20, surplus
 - B) 20, deficit
 - C) -20, surplus
 - D) -20, deficit

13. Desired aggregate expenditure at each level of national income is shown by the _____ of the AE curve.
- A) slope
 - B) height
 - C) vertical intercept
 - D) horizontal intercept
14. In the Chapter 29 macro model, with no government or foreign trade, national asset formation
- A) is impossible, since all output is consumed.
 - B) is impossible, since there is no government buying bonds.
 - C) is equal to private saving.
 - D) is equal to the income firms hold back from paying out to the factors of production.
15. Suppose: $S = -50 + .1Y_d$, $Y_d = .76Y$, $I = 170$, $G = 320$, $X = 90$, and $IM = .06Y$. When national income is 1200, desired national saving _____ desired national asset formation, so equilibrium GDP must be _____ 1200.
- A) exceeds, above
 - B) exceeds, below
 - C) falls short of, above
 - D) falls short of, below
16. A rise in the tax rate causes the AE curve to
- A) shift parallel downward.
 - B) shift parallel upward.
 - C) pivot downward.
 - D) pivot upward.
17. A fall in the tax rate causes _____ in autonomous spending and a _____ in the multiplier.
- A) a rise, rise
 - B) a rise, fall
 - C) no change, rise
 - D) no change, fall



Refer to Figure 2801 to answer questions 18-19.

18. The shift in the expenditure function from AE_0 to AE_1 could be caused by
- A) a rise in the multiplier.
 - B) a fall in the marginal propensity to consume.
 - C) a rise in the marginal propensity to consume.
 - D) an increase in investment expenditures.
19. In this analysis, the price level
- A) is measured by OD / OB .
 - B) increases as the economy moves from E_0 to E_1 .
 - C) is taken as given.
 - D) can be derived from the slope of the AE function.

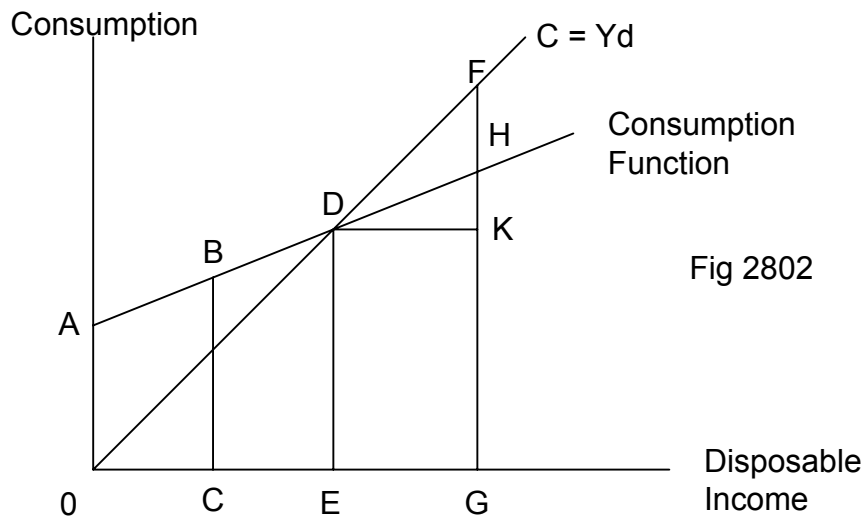


Fig 2802

Refer to Figure 2802 to answer question 20.

20. If disposable income is OG , in Figure 2802, the volume of savings is
- A) HK .
 - B) KF .
 - C) GK .
 - D) FH .