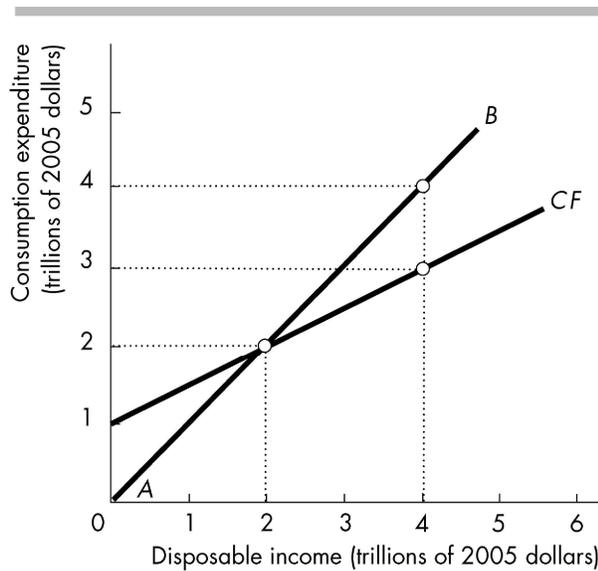


Choose the one alternative that best completes the statement or answers the question.

- 1) In the Keynesian model of aggregate expenditure, real GDP is determined by the \_\_\_\_\_  
 A) level of taxes. B) price level.  
 C) level of aggregate demand. D) level of aggregate supply.
- 2) Which of the following statements is FALSE? \_\_\_\_\_  
 A) Consumption expenditure = saving - disposable income.  
 B) Consumption expenditure + saving = disposable income.  
 C) Saving = disposable income - consumption expenditure.  
 D) Disposable income - saving = consumption expenditure.



- 3) In the above figure, consumption and disposable income are equal at \_\_\_\_\_  
 A) a disposable income level of \$0.  
 B) a disposable income level of \$2 trillion.  
 C) a saving level of \$1 trillion and disposable income level of \$4 trillion.  
 D) any point along the consumption function.
- 4) In the above figure, at a disposable income level of \$2 trillion, saving equals \_\_\_\_\_  
 A) disposable income. B) consumption expenditures.  
 C) zero. D) \$4 trillion.
- 5) Suppose disposable income increases from \$5 trillion to \$6 trillion. As a result, consumption expenditure increases from \$4 trillion to \_\_\_\_\_. This result means the *MPC* equals \_\_\_\_\_.  
 A) \$5 trillion; 0.80 B) \$4.5 trillion; 4.50  
 C) \$6 trillion; 1.00 D) \$4.8 trillion; 0.80

- 6) If prices are fixed, an increase in aggregate expenditures results in an increase in equilibrium GDP that \_\_\_\_\_  
 6) \_\_\_\_\_  
 A) has no necessary relationship to the size of the change in aggregate expenditure.  
 B) is equal to the change in aggregate expenditure.  
 C) is greater than the change in aggregate expenditure.  
 D) is less than the change in aggregate expenditure.
- 7) The multiplier effect on real GDP occurs because \_\_\_\_\_  
 7) \_\_\_\_\_  
 A) of government stabilization policies.  
 B) an autonomous change in expenditure causes an induced change in consumption expenditure.  
 C) changes in price levels affect our willingness to invest, consume, import and export.  
 D) of income taxes.
- 8) If the multiplier is 6 and exports decrease by \$30, what impact will that have on aggregate expenditure? \_\_\_\_\_  
 8) \_\_\_\_\_  
 A) increase by \$180  
 B) decrease by \$180  
 C) decrease by \$30  
 D) increase by \$30
- 9) The expenditure multiplier equals \_\_\_\_\_  
 9) \_\_\_\_\_  
 A)  $APC - APS$  where  $APC$  is the average propensity to consume and  $APS$  is the average propensity to save.  
 B)  $1/(1 - \text{slope of } AE \text{ curve})$ .  
 C)  $1/(\text{slope of } AE \text{ curve})$ .  
 D)  $MPC - MPS$  where  $MPC$  is the marginal propensity to consume and  $MPS$  is the marginal propensity to consume.
- 10) If the  $MPC$  is .9 and there are no income taxes or imports, the multiplier for a change in autonomous expenditure equals \_\_\_\_\_  
 10) \_\_\_\_\_  
 A) 0.1.                      B) 100.0.                      C) 9.0.                      D) 10.0.
- 11) If the multiplier for a change in autonomous expenditure is 10 and there are no income taxes or imports, then the  $MPC$  is \_\_\_\_\_  
 11) \_\_\_\_\_  
 A) 0.9.                      B) 9.0.                      C) 0.1.                      D) 1.0.
- 12) The slope of the  $AE$  curve is 0.9. Investment decreases by \$100 million and the price level is constant. Real GDP \_\_\_\_\_  
 12) \_\_\_\_\_  
 A) decreases by \$10 million.                      B) increases by \$1 billion.  
 C) decreases by \$1 billion.                      D) increases by \$90 million.
- 13) Suppose the consumption function is given by the equation  $C = 100 + 0.8YD$ , where  $YD$  is disposable income. What is the marginal propensity to consume? \_\_\_\_\_  
 13) \_\_\_\_\_  
 A) 2.0                      B) 0.2                      C) 0.8                      D) 100
- 14) Suppose the consumption function is given by the equation  $C = 100 + 0.8YD$ , where  $YD$  is disposable income. What is the marginal propensity to save? \_\_\_\_\_  
 14) \_\_\_\_\_  
 A) 2.0                      B) 100                      C) 0.2                      D) 0.8

**Write your answer in the space provided or on a separate sheet of paper.**

- 15) The slope of the  $AE$  curve is .80. What is the multiplier? Everything else the same, by how much does equilibrium aggregate expenditure increase if
- a) exports increase from \$1.75 trillion to \$2.25 trillion.
  - b) government expenditure on goods and services decrease from \$2.0 trillion to \$1.8 trillion.
  - c) investment increases from \$1.2 trillion to \$2.3 trillion.