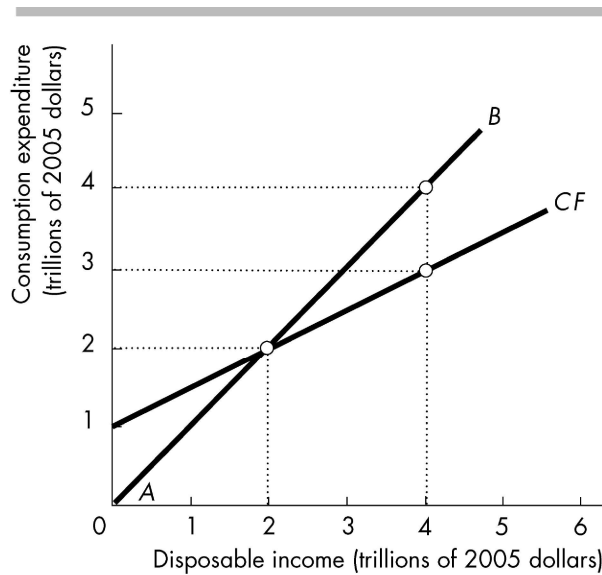


Choose the one alternative that best completes the statement or answers the question.

- 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.