

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

- 1) Suppose an open economy is in equilibrium. Given this information, we know with certainty that: 1) _____
 A) $X = IM$. B) $S = I$. C) $G = T$. D) $Y = Z$.
- 2) An increase in taxes will cause: 2) _____
 A) no change in investment. B) a reduction in investment.
 C) no change in autonomous spending. D) an increase in investment.
- 3) Suppose the marginal propensity to consume equals .6 (i.e., $c_1 = .6$). Given this information, which of the following events will cause the largest reduction in output? 3) _____
 A) T increases by 300 B) I decreases by 250
 C) G decreases by 300 D) both A and B
- 4) Suppose the consumption equation is represented by the following: $C = 500 + .8Y_D$. Given this information, the marginal propensity to save is: 4) _____
 A) .2.
 B) .8.
 C) 1.
 D) 5.
 E) none of the above
- 5) Suppose $C = 100 + .8Y_D$. How much of an increase in government spending must occur for equilibrium output to increase by 1000? 5) _____
 A) 100 B) 200 C) 250 D) 500 E) 1000
- 6) An economy is in equilibrium when which of the following conditions is satisfied? 6) _____
 A) output equals consumption
 B) total saving equals zero
 C) consumption equals saving
 D) total saving equals investment
 E) all of the above
- 7) For a closed economy, which of the following conditions must be satisfied for equilibrium to be maintained? 7) _____
 A) $X = IM = 0$. B) $G = T$.
 C) $C = S$. D) none of the above
- 8) Let the consumption function be represented by the following equation: $C = c_0 + c_1 Y_D$. For this equation, we assume that c_1 is: 8) _____
 A) different at different levels of income.
 B) equal to one.

- C) negative.
- D) larger than c_0 .
- E) none of the above

- 9) An increase in the marginal propensity to consume from .6 to .8 will cause: 9) _____
- A) the ZZ line to become steeper and a given change in autonomous consumption (c_0) to have a smaller effect on output.
 - B) the ZZ line to become steeper and a given change in autonomous consumption (c_0) to have a larger effect on output.
 - C) the ZZ line to become flatter and a given change in autonomous consumption (c_0) to have a larger effect on output.
 - D) the ZZ line to become flatter and a given change in autonomous consumption (c_0) to have a smaller effect on output.
- 10) A reduction in the marginal propensity to consume from .7 to .6 will cause: 10) _____
- A) the ZZ line to become flatter and a given change in autonomous consumption (c_0) to have a larger effect on output
 - B) the ZZ line to become steeper and a given change in autonomous consumption (c_0) to have a larger effect on output
 - C) the ZZ line to become steeper and a given change in autonomous consumption (c_0) to have a smaller effect on output
 - D) the ZZ line to become flatter and a given change in autonomous consumption (c_0) to have a smaller effect on output
- 11) An increase in the desire to save by households will cause: 11) _____
- A) no change in investment and no change in output.
 - B) a reduction in output.
 - C) an increase in output.
 - D) a reduction in investment.

Use the information below to answer the following questions:

$$C = 1000 + .75Y_D$$

$$I = 850$$

$$G = 2500$$

$$T = 1000$$

- 12) The equilibrium level of GDP for the above economy equals: 12) _____
- A) 3600.
 - B) 4350.
 - C) 13400.
 - D) 14400.
 - E) none of the above
- 13) Based on our understanding of the model presented in Chapter 3, we know with certainty that an equal and simultaneous reduction in G and T will cause: 13) _____

- A) no change in output.
- B) an increase in output.
- C) a reduction in output.
- D) an increase in investment.

- 14) When calculating fixed investment spending (I), which of the following expenditures would not be included? 14) _____
- A) Dell computer buys a new robot for its assembly line.
 - B) An individual buys a newly built home.
 - C) A local auto dealer increases its inventories of unsold automobiles.
 - D) Ford Motor Company builds a new factory.
 - E) all of the above
- 15) Based on our understanding of the model presented in Chapter 3, we know with certainty that an equal and simultaneous increase in G and T will cause: 15) _____
- A) no change in output.
 - B) a reduction in output.
 - C) an increase in investment.
 - D) an increase in output.
- 16) Which of the following equals demand in an open economy? 16) _____
- A) $C + I + G + IM - X$
 - B) $C + I + G$
 - C) $C + I + G + X - IM$
 - D) $C + I + G + X$
- 17) Which of the following represents total saving for an economy? 17) _____
- A) the sum of private saving and consumption
 - B) the sum of taxes and government spending
 - C) the excess of taxes over government spending
 - D) the sum of private saving and fixed investment
 - E) none of the above
- 18) Which of the following types of government spending is included when calculating GDP? 18) _____
- A) spending at the federal level
 - B) spending at the municipal level
 - C) spending at the state level
 - D) all of the above
 - E) only A and B
- 19) An increase in the marginal propensity to save from .3 to .4 will cause: 19) _____
- A) the ZZ line to become steeper and a given change in autonomous consumption (c_0) to have a smaller effect on output.
 - B) the ZZ line to become flatter and a given change in autonomous consumption (c_0) to have a smaller effect on output.
 - C) the ZZ line to become steeper and a given change in autonomous consumption (c_0) to have a larger effect on output.
 - D) the ZZ line to become flatter and a given change in autonomous consumption (c_0) to have a larger effect on output.
- 20) A reduction in the marginal propensity to save from .4 to .3 will cause: 20) _____

- A) the ZZ line to become steeper and a given change in autonomous consumption (c_0) to have a larger effect on output.
 B) the ZZ line to become flatter and a given change in autonomous consumption (c_0) to have a larger effect on output.
 C) the ZZ line to become flatter and a given change in autonomous consumption (c_0) to have a smaller effect on output.
 D) the ZZ line to become steeper and a given change in autonomous consumption (c_0) to have a smaller effect on output.
- 21) Which of the following equals demand in a closed economy? 21) _____
 A) $C + I + G + X$ B) $C + I + G + IM - X$
 C) $C + I + G + X - IM$ D) none of the above
- 22) In the model of the goods market presented in Chapter 3, which of the following variables is exogenous? 22) _____
 A) disposable income (Y_D)
 B) saving (S)
 C) demand (Z)
 D) consumption (C)
 E) none of the above
- 23) In the model of the goods market presented in Chapter 3, which of the following variables is NOT endogenous? 23) _____
 A) taxes (T)
 B) consumption (C)
 C) disposable income (Y_D)
 D) saving (S)
 E) all of the above
- 24) Based on our understanding of the paradox of saving, we know that a *reduction* in the desire to save will cause: 24) _____
 A) a reduction in GDP.
 B) no change in equilibrium GDP.
 C) an increase in equilibrium GDP.
 D) a permanent reduction in the level of saving.
 E) an increase in the desire to invest.
- 25) A tax cut will cause: 25) _____
 A) a reduction in investment. B) no change in autonomous spending.
 C) an increase in investment. D) no change in investment.
- 26) Suppose business confidence increases causing an increase in investment. Based on our understanding of the model presented in Chapter 3, we know with certainty that an increase in investment will cause: 26) _____
 A) an increase in the multiplier.

- B) a reduction in the marginal propensity to save.
- C) a reduction in the multiplier.
- D) an increase in output.
- E) both A and D

- 27) Which of the following events will cause a reduction in equilibrium output? 27) _____
- A) a reduction in the marginal propensity to consume
 - B) an increase in the marginal propensity to save
 - C) an increase in taxes
 - D) all of the above
 - E) none of the above
- 28) Suppose business confidence decreases causing a reduction in investment. Based on our understanding of the model presented in Chapter 3, we know with certainty that a reduction in investment will cause: 28) _____
- A) a reduction in the multiplier.
 - B) a reduction in the marginal propensity to save .
 - C) a reduction in consumption as the economy adjusts to this decrease in investment.
 - D) an increase in the multiplier.
- 29) Suppose, as unrealistic as this might be, that disposable income is zero for a country. Given this information, we know that: 29) _____
- A) saving must be zero.
 - B) consumption must be zero.
 - C) saving must be positive.
 - D) the marginal propensity to consume must be zero.
 - E) saving is negative.

Use the information below to answer the following questions:

$$C = 1000 + .75Y_D$$

$$I = 850$$

$$G = 2500$$

$$T = 1000$$

- 30) The equation for household saving, S, for the above economy is: 30) _____
- A) $-1000 - .25Y_D$
 - B) $3350 + .75Y$
 - C) $-1000 + .75Y_D$
 - D) $-1000 + .25Y_D$
 - E) $3350 + .25Y$

- 1) D
- 2) A
- 3) C
- 4) A
- 5) B
- 6) D
- 7) D
- 8) E
- 9) B
- 10) D
- 11) B
- 12) D
- 13) C
- 14) E
- 15) D
- 16) C
- 17) E
- 18) D
- 19) B
- 20) A
- 21) D
- 22) E
- 23) A
- 24) C
- 25) D
- 26) D

27) D

28) C

29) E

30) D