Chapter 3 Goods Market
Study Questions

1) An economy is assumed to be closed when
   (a) $S = I$
   (b) $G = T = 0$
   (c) $X = IM$
   (d) $G = T$
   (e) none of the above

2) Disposable income equals
   (a) consumption minus taxes
   (b) income minus saving
   (c) the sum of consumption and saving
   (d) income minus both saving and taxes
   (e) none of the above

3) The marginal propensity to consume represents
   (a) the level of consumption that occurs if disposable income is zero
   (b) the change in consumption caused by a one-unit change in disposable income
   (c) total income minus total taxes
   (d) the change in output caused by a one-unit change in autonomous demand
   (e) the ratio of total consumption to disposable income

4) Suppose the consumption equation is represented by the following: $C = 500 + .8YD$. The multiplier in this economy is:
   (a) .2
   (b) .8
   (c) 1
   (d) 4
   (e) 5

5) Suppose, as unrealistic as this might be, that disposable income is zero for a country. Given this information, we know that
   (a) saving is negative
   (b) saving must be zero
   (c) consumption must be zero
   (d) the marginal propensity to consume must be zero
   (e) saving must be positive

6) economy is in equilibrium when which of the following conditions is satisfied?
   (a) total saving equals zero
   (b) total saving equals investment
   (c) output equals consumption
   (d) consumption equals saving
   (e) all of the above

Use the information below to answer the following questions
$$C = 1000 + .75Y_D$$
$$I = 850$$
$$G = 2500$$
$$T = 1000$$

7) The equilibrium level of GDP for the above economy equals
   (a) 3600.
   (b) 4350
   (c) 13400
   (d) 14400.
   (e) none of the above

8) The multiplier for the above economy equals
   (a) 2
   (b) 3
   (c) 4
   (d) 5
   (e) none of the above

9) Suppose government spending decreases by 200 for the above economy. Given the above information, we know that equilibrium output will decrease by:
   (a) 200
   (b) 400
   (c) 800
   (d) 1000
   (e) none of the above

10) The equation for household saving, S, for the above economy is
   (a) $3350 + .25Y$
   (b) $-1000 + .25Y_D$
   (c) $-1000 - .25Y_D$
   (d) $3350 + .75Y$
   (e) $-1000 + .75Y_D$

11) Which of the following events would cause an increase in the size of the multiplier?
   (a) a reduction in government spending
   (b) a reduction in taxes

(c) an increase in the marginal propensity to save
(d) an increase in the marginal propensity to consume
(e) none of the above

12) When $C = c_0 + c_1 YD$, a reduction in c_0 will cause which of the following to decrease?

(a) equilibrium disposable income
(b) demand
(c) equilibrium income
(d) all of the above
(e) none of the above

13) Suppose $C = 100 + .8YD$. How much of an increase in government spending must occur for equilibrium output to increase by 1000?

(a) 100
(b) 200
(c) 250
(d) 500
(e) 1000

14) An increase in the marginal propensity to consume from .6 to .8 will cause:

(a) the ZZ line to become flatter 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 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 larger effect on output

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:

(a) a reduction in output
(b) no change in output
(c) an increase in investment
(d) an increase in output

16) 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?

(a) I decreases by 250
(b) T increases by 300
(c) G decreases by 300
(d) both A and B

17) The multiplier measures the

(a) number of steps it takes to move from one equilibrium to another
(b) rise in saving resulting from a rise in income
(c) marginal propensity to invest.
(d) rise in equilibrium GDP resulting from a one dollar rise in autonomous expenditures

18) Employing Figure 3.1, autonomous consumption expenditures are _____, and the marginal propensity to consume is _____.
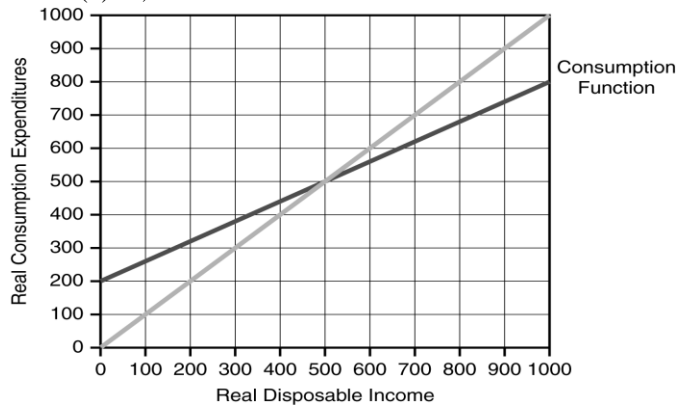
(a) 200; 0.75
(b) 500; 1
(c) 200; 0.60
(d) 0; 1

Figure 3.1