Time: 1 Hour

Economics 212
Exam 1

1997

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100% Multiple Choice (50 questions, 9 pages)

1. The aggregate-demand curve
a. is positively sloped.
b. shows how much people are prepared to sell at different price levels.
c. shows how much people are prepared to buy at different income levels.
d. shows the relationship between relative prices and the price level.
e. None of the above.

2. The GNP deflator is
a. the same as the consumer price index (CPI).
b. more comprehensive than the CPI as a price index.
c. less comprehensive than the CPI as a price index.
d. not a price index.
e. none of the above.

3. If the GNP deflator in 1988 is 220 and is 200 in 1987, the annual inflation rate between these two periods is
a. 5 percent.
b. 10 percent.
c. 20 percent.
d. 2 percent.
e. zero.

4. The rate of inflation can be measured by
a. the level of the GNP deflator.
b. the level of the CPI.
c. the rate of change in the GNP deflator from one time period to the next.
d. the GNP deflator minus the CPI index.
e. none of the above.

5. Industry A buys $100 worth of products from other industries. If the sales of industry A are $300, industry A's value added is
a. $400.
b. $300.
c. $200.
d. $0.
e. none of the above.

6. The total value added of the economy equals
a. total profits.
b. the sum of wages, interest, rents, and profits.
c. the total value of all final goods and services.
d. all of the above.
e. Both (b) and (c).

7. Transfer payments are not included in net national product because
a. they are not necessarily spent upon receipt.
b. they are usually double counted.
c. they are not payments for goods and services.
d. they should be included under government final expenditures.
e. All of the above.

8. The circular-flow diagram shows that
a. the flow of payments to the factors of production exceeds the flow of payments for final goods and services.
b. product and factor markets are independent.
c. the total amount of income generated by the economy equals total purchases of final goods and services.
d. consumption equals saving.
e. None of the above.

9. In economy A, government spending is $50 billion, consumption is $100 billion, exports are $30 billion, imports are $30 billion, investment is $10 billion, and taxes are $50 billion. GNP in economy A is
a. $270 billion.
b. $210 billion.
c. $190 billion.
d. $160 billion.
e. none of the above.

10. Which of the following is not a final good or service?
a. The flour purchased by the homemaker.
b. The flour purchased by the baker.
c. The flour purchased by the grocery store and still on the shelves.
d. The increase in flour inventories of the miller.
e. All of the above are final goods.

11. The equality of saving and investment means that
a. what people want to save always equals what people want to invest.
b. the value of stocks and bonds equals the amount of annual saving.
c. some mechanism is required to bring desired saving into equality with desired investment.
d. national income cannot equal net national product.
e. None of the above.

12. Measured GNP statistics may overstate the differences in living standards between industrialized and poor countries because
a. there is more investment in industrialized countries.
b. there is a higher proportion of nonmarketed goods in poor countries.
c. there is more depreciation in the industrialized countries.
d. All of the above.
e. None of the above.

13. The value of output will equal the value of income because
a. saving equals investment.
b. government spending equals taxes.
c. the government automatically spends the tax revenues it collects.
d. workers receive wages when they produce goods.
e. profits insure that the two are equal.

14. In economy A, C + I + G + X - M equals $500 billion; indirect business taxes equal $50 billion; depreciation equals $25 billion. National income, therefore, equals
a. $500 billion.
b. $450 billion.
c. $425 billion.
d. $400 billion.
e. none of the above.

15. In economy A, C + I + G + X - M equals $500 billion; indirect business taxes equal $50 billion; depreciation equals $25 billion. Net national product, therefore, equals
a. $500 billion.
b. $450 billion.
c. $425 billion.
d. $400 billion.
e. none of the above.

16. One reason some economists prefer net national product (NNP) to gross national product (GNP) is that
a. NNP includes depreciation.
b. NNP is larger than GNP.
c. NNP does not include depreciation and is a better measure of new goods and services.
d. NNP adjusts better for inflation distortions.
e. None of the above.

17. Expenditures on residential structures are
a. intermediate goods and, therefore, not part of GNP.
b. are classified as personal consumption expenditures on durable goods.
c. a serious omission from the national accounts because so much housing is in fact rented.
d. classified as part of investment expenditures.
e. none of the above.

18. The reason that national-income accountants are concerned about the underground economy is that
a. we don't want to mistakenly count the value of illegal transactions, which would bias our estimates of GNP.
b. air, water, and noise pollution are economic "bads."
c. the labor of spouses in the production of unpaid household services is historically undervalued.
d. we would get a false impression of change in economic activity if previously reported activity is no longer reported (to avoid taxes).
e. leisure is a private matter and has no place in social accounts.

19. If business inventories are $450 billion at the end of 1985 and they were $500 billion at the beginning of 1985,
a. inventory investment was $500 billion for 1985.
b. inventory investment was $450 billion for 1985.
c. inventory investment was +$50 billion for 1985.
d. inventory investment was -$50 billion for 1985.
e. None of the above.

20. The value of total output equals the value of total income because
a. you cannot buy more than you earn.
b. saving equals investment.
c. the act of producing output automatically creates an equivalent amount of income.
d. society cannot consume what it has not produced.
e. All of the above.

21. Keynesian equilibrium occurs when
a. desired aggregate expenditure equals income.
b. desired aggregate expenditure equals output.
c. the aggregate-expenditure schedule intersects the 45-degree line.
d. desired saving and desired investment are equal.
e. All of the above.

22. Consumption spending by families shows that, as a general rule,
a. spending equals income.
b. higher-income families spend a larger percentage of their income.
c. higher-income families spend a smaller percentage of their income.
d. lower-income families and higher-income families spend about the same percentage of their incomes.
e. None of the above.

23. The marginal propensity to consume (MPC) is
a. the increase in consumption spending per dollar increase in saving.
b. the decrease in consumption spending per dollar decrease in saving.
c. the change in consumption divided by the change in saving.
d. a fraction greater than one.
e. none of the above.

24. Assume that in a hypothetical economy, investment is constant at $30 billion. At an output level of 0, consumption is $10 billion; at an output of $100 billion, consumption is $90 billion; at an output of $200 billion, consumption is $170 billion; at an output of $300 billion, consumption is $250 billion. In this economy the marginal propensity to save is
a. impossible to determine from the information given.
b. 0.3.
c. 0.1.
d. 0.2.
e. none of the above.

90 1
80 6
70 7
60 12
50 6
40 6
< 40 1

25 . Saving occurs at any level of income at which
a. the consumption/income curve is above the 45-degree line.
(b) the consumption/income curve intersects the saving/income curve.
(c) the consumption/income curve is below the 45-degree line.
d. the economy is in disequilibrium.
e. None of the above.

26 . Saving and investment are
a. done by the same people.
b. seldom the same, except by accident.
c. done for the same reasons because saving and investment are equal.
d. direct transfers from one group to another.
(e) none of the above.

27 . Points on the consumption/income curve that lie below the 45-degree line indicate
(a) levels of income at which there is saving.
b. that consumers are spending too little.
c. that consumers are spending too much.
d. levels of income at which there is dissaving.
e. None of the above.

28 . The marginal propensity to consume is
a. the ratio of consumption spending to personal disposable income.
b. the increase in disposable income divided by the increase in consumption spending.
c. the increase in consumption spending divided by average disposable income.
(d) the increase in consumption spending divided by the increase in disposable income.
e. none of the above.

29 . The consumption Function in the Keynesian model shows that
(a) real consumption rises when real disposable income rises.
b. real consumption rises by less than the increase in real disposable income.
c. the marginal propensity to consume out of disposable income is between 0 and 1.
d. the marginal propensity to save out of disposable income is between 0 and 1.
(e) All of the above.

30 . If income goes up, the Total Exp's curve
a. shifts up.
(b) doesn't move.
c. shifts down.
(d) gets steeper.
e. gets flatter.

31 . The accumulation of unwanted inventories
a. will eventually result in an increase in desired investment.
(b). will signal that current production rates are too high.
c. means desired investment is greater than actual savings.
d. defines a Keynesian equilibrium.
e. All of the above.

32 . When government spending and taxes are added to the Keynesian model,
a. the model breaks down.
b. the consumption/income curve shifts up when taxes are introduced.
c. the equilibrium condition becomes S + G = I + T.
(d). the equilibrium condition becomes S + T = I + G.
e. All of the above.

33 . One reason for the aggregate-demand curve to be downward-sloping is that
(a). a lower price level stimulates consumption for a given money supply.
b. a lower price level discourages consumption for a given money supply.
c. a higher level of income encourages more consumption.
d. investment equals saving.
e. None of the above.

34 . If there is a higher price level,
a. the aggregate-demand (AD) curve shifts up.
(b). the AD curve shifts down.
(c). the aggregate-expenditure (AE) curve shifts down.
d. the AE curve shifts up.
e. the AE curve remains unchanged.

35 . Assume that investment is constant at $10 billion and that government spending is constant at $40 billion. At a national-income level of $100 billion, consumption is $150 billion; at $200 billion, consumption is $200 billion; at $300 billion, consumption is $250 billion; at $400 billion, consumption is $300 billion. If investment increases from $10 billion to $20 billion, the increase in equilibrium output is
a. $50 billion.
b. $200 billion.
c. $150 billion.
d. $100 billion.
(e) none of the above.

36 . If the marginal propensity to consume out of disposable income is 0.75, a $100 billion increase in taxes will shift the Total Exp'ls curve
a. up by $50 billion.
b. down by $50 billion.
c. down by $100 billion.
(d). down by $75 billion.
e. None of the above.

37. If taxes are increased by $100 billion, the [redacted] curve should
a. shift up by more than $100 billion.
b. shift up by less than $100 billion.
c. shift down by less than $100 billion.
d. shift down by more than $100 billion.
e. do none of the above.

38. Suppose government spending rises by $100 billion. If taxes are constant and the marginal propensity to consume is 0.75, then according to the Keynesian model, equilibrium output
a. rises by $75 billion.
b. rises by $100 billion.
c. rises by $200 billion.
d. rises by $400 billion.
e. None of the above.

39. If government spending is increased by $20 billion and taxes are raised by the same amount, the Keynesian model predicts that
a. output will increase by the amount of the government-spending increase.
b. output will not change.
c. output will decline by the amount of the tax increase.
d. the consumption function will not shift.
e. None of the above.

40. Suppose taxes fall by $100 billion. In the simple Keynesian model, if government spending is constant and the marginal propensity to consume is 0.8, the equilibrium output rises by
a. $100 billion.
b. $80 billion.
c. $240 billion.
d. $320 billion.
e. $400 billion.

41. The relationship between the multiplier and the marginal propensity to save is
a. inverse.
b. positive.
c. that the marginal propensity to consume is always equal to the multiplier.
d. nonexistent.
e. None of the above.

42. Assume that investment is $10 billion, government spending is $20 billion, taxes are $15 billion, and consumption equals $5 billion plus 0.8 times the difference between national income and taxes; that is, $C = 5 + 0.8(Y - T)$. Equilibrium output will equal
a. $115 billion.
b. $70 billion.
c. $120 billion.
d. $50 billion.
e. none of the above.