Exercises

I) Given the general price in year 2000 $P_{2000} = 100$
And the inflation rate $f_{2001} = 10\%$ in year 2001 and $f_{2002} = 10\%$
What will be the general level of price at the end of year 2002. 121

II) Given the general price in year 2000. $P_{2000} = 100$
and $f_{2001} = 10\%$
$f_{2002} = 11\%$
$f_{2003} = 12\%$ 135.52
What would be the general level of price at the end of year 2003.

III) Given the general level of price in year 2000 = 100
$P_{2000} = 100$
And $f_{2001} = 10\%$ $\frac{129 - 121}{121} \times 100 = 6.6$
$f_{2002} = 11\%$
And the level price at the end of year 2003 is 150
What will be the inflation for year 2003.

IV) Supposed an economy is producing 4 goods
- weapons
- butter
- cars
- books

In year 2000 $P_{weapons} = 100$
$P_{butter} = 50$

$P_{cars} = 70$
$P_{books} = 80$
300
In year 2001 prices become
$P_{weapons} = 110$
$P_{butter} = 40$ $\frac{305 - 300}{300} \times 100 = 1.6$
$P_{cars} = 80$
$P_{books} = 75$
305
What is the inflation rate for year 2001.

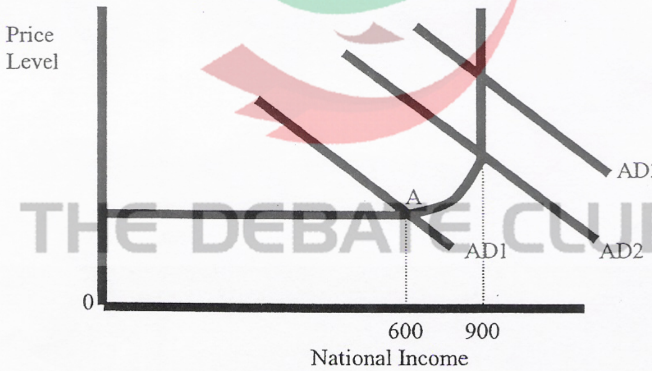
α V) The short-run effect of increased defense spending that is not accommodated by increased taxation could be: ↑G
a. higher prices and higher GDP.
b. higher prices and lower GDP.
c. lower prices and lower GDP.
d. lower prices and higher GDP.
e. lower prices and the same GDP.

Keynesian policy recommends which of the following to bring about the largest increase in equilibrium income?
a. a decrease in taxes equal to $20 and an increase in government expenditures equal to $20.
b. a decrease in taxes equal to $20.
c. an increase in government expenditures equal to $20.
d. a budgetary surplus of $20.
e. a decrease in the supply of money to push prices up and real wage rates down.

If taxes decrease by $30 and the MPS is. 10, then
a. planned consumption spending will increase by $28.
b. planned saving will decrease by $3.
c. planned saving will increase by $27.
d. the income level will increase by $270.
e. the income level will increase by $30.

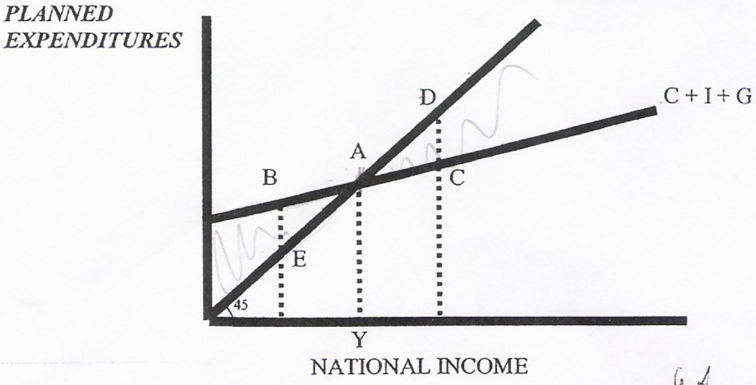
A budgetary surplus
a. should be incurred to correct for a recession.
b. may have to be reduced to correct for unemployment.
c. means government expenditures are greater than total revenues collected.
d. will cause national income to increase.
e. means none of the above.

If the multiplier equals 4 and the economy is $200 below the full employment income level, then
a. MPS = .25 and MPC = .75.
b. total spending needs to be increased by $50.
c. total spending needs to be increased by $200.
d. government should run a surplus.
e. a. and b.



Consider the above diagram. Assume the economy is in equilibrium at point A. An increase in taxes would
a. increase the slope of the aggregate demand curve.
b. decrease the slope of the aggregate demand curve.
c. shift the aggregate supply curve outward.
d. shift the aggregate demand curve to the right.
e. shift the aggregate demand curve to the left.

The saving function
a. shows what households plan to save at various income levels.
b. slopes upward to the right because saving increases as income increases.
c. has a slope equal to the MPS.
d. can be derived from the consumption function.
e. is characterized by all of the above.



AD = C + I + G

According to the diagram above, at a national income level of Y

a. there is pressure for the economy to expand.
b. there are unplanned reductions in inventory.
c. aggregate expenditures are less than national income.
d. the economy has achieved equilibrium.
e. the natural rate of unemployment is zero.

According to the diagram above, if nothing is done, the economy will contract when aggregate expenditures are at

a. point A. b. point C. c. point B. d. point D. e. point E.

In the calculation of GNP by the expenditure approach, exports from Lebanon must be:

a. subtracted because they are included in the consumption of a foreign country.
b. ignored because they are not bought by Lebanese citizens.
c. subtracted if they are bought by foreign firms for investment purposes.
d. added because they create income for Lebanese.

Y	C	I	G
$0	$50	$75	$150
$150	$125	$75	$150
$300	$200	$75	$150
$450	$275	$75	$150
$600	$350	$75	$150

Refer to the above table. At an income level of $300, the average propensity to save equals

a. 0.10. b. 0.23. c. 0.33. d. 0.67. e. 1.50.

Refer to the table above. The intercept of C+I+G is

a. $125. b. $150. c. $275. d. $315. e. $335.

Which of the following constitutes a transfer payment?

a. Income taxes. b. Corporate salaries. c. Fiscal spending.
d. Dividend payments. e. Welfare benefits.

The balanced-budget multiplier indicates that equal increases in government spending and taxes

a. increase equilibrium income by a multiple of one.
b. do not change equilibrium income.
c. decrease equilibrium income by a multiple of one.
d. decrease equilibrium income by the amount of the tax.
e. increase equilibrium income by a multiple of two.