

# [Chapter 9 macroeconomic relationships topic](https://assignbuster.com/chapter-9-macroeconomic-relationships-topic/)

[Life](https://assignbuster.com/essay-subjects/life/), [Relationships](https://assignbuster.com/essay-subjects/life/relationships/)

Question numbers:

1. Consumption function/APC/MPC 1-39
2. Saving function/APS/MPS 40-53
3. Shifts in consumption and saving functions 54-69
4. Graphs/tables: mixed consumption and saving 70-106
5. Investment demand 107-145
6. Multiplier effect 146-181
7. Consider This 182-183
8. Last Word 184-185
9. True-False 186-200
10. Multiple Choice Questions Consumption function/APC/MPC

### Type: A Topic: 1 E: 152 MA: 152 .

The most important determinant of consumer spending is:

* A)the level of household debt.
* B)the stock of wealth.
* C)consumer expectations.
* D)the level of income.

Answer: D

### Type: D Topic: 1 E: 152 MA: 152

2. The most important determinant of consumption and saving is the:

* A)level of bank credit.
* B) level of income.
* C) interest rate.
* D) price level.

Answer: B

### Type: A Topic: 1 E: 156 MA: 156

3. If Smith's disposable income increases from $1, 200 to $1, 700 and her level of saving increases from minus $100 to a plus $100, her marginal propensity to:

* A)save is three-fifths.
* C)consume is three-fifths.
* B)consume is one-half.
* D)consume is one-sixth.

Answer: C

### Type: A Topic: 1 E: 156 MA: 156

4. With an MPS of . 4, the MPC will be:

* A)1. 0 minus . 4.
* B) . 4 minus 1. 0.
* C) the reciprocal of the MPS.
* D) . 4.

Answer: A

### Type: D Topic: 1 E: 156 MA: 156

5. The MPC can be defined as that fraction of a:

* A)change in income that is not spent.
* C)given total income that is not consumed.
* B)change in income that is spent.
* D)given total income that is consumed.

Answer: B

### Type: A Topic: 1 E: 154 MA: 154

6. The 45-degree line on a graph relating consumption and income shows:

* A)all points where the MPC is constant.
* B)all points at which saving and income are equal.
* C)all the points at which consumption and income are equal.
* D)the amounts households will plan to save at each possible level of income.

Answer: C

### Type: A Topic: 1 E: 154 MA: 154

7. As disposable income goes up the:

* A)APC falls.
* C)volume of consumption declines absolutely.
* B)APS falls.
* D)volume of investment diminishes.

Answer: A

### Type: D Topic: 1 E: 153 MA: 153

8. The consumption schedule shows:

* A)that the MPC increases in proportion to GDP.
* B)that households consume more when interest rates are low.
* C)that consumption depends primarily on the level of business investment.
* D)the amounts households plan or intend to consume at various possible levels of aggregate income.

Answer: D

### Type: D Topic: 1 E: 153 MA: 153

9. The consumption schedule relates:

* A)consumption to the level of disposable income.
* C)disposable income to domestic income.
* B)saving to the level of disposable income.
* D)consumption to saving.

Answer: A

### Type: A Topic: 1 E: 153 MA: 153

10. A decline in disposable income:

* A)increases consumption by moving upward along a specific consumption schedule.
* B)decreases consumption because it shifts the consumption schedule downward.
* C)decreases consumption by moving downward along a specific consumption schedule.
* D)increases consumption because it shifts the consumption schedule upward.

Answer: C

### Type: D Topic: 1 E: 154 MA: 154

11. The APC is calculated as:

* A)change in consumption / change in income
* C)change in income / change in consumption
* B)consumption / income
* D)income / consumption

Answer: B

### Type: A Topic: 1 E: 153 MA: 153

12. The consumption schedule shows:

* A)a direct relationship between aggregate consumption and accumulated wealth.
* B)a direct relationship between aggregate consumption and aggregate income.
* C)an inverse relationship between aggregate consumption and accumulated financial wealth.
* D)an inverse relationship between aggregate consumption and aggregate income.

Answer: B

### Type: D Topic: 1 E: 153 MA: 153

13. The APC can be defined as the fraction of a:

* A)change in income that is not spent.
* B)change in income that is spent.
* C)specific level of total income that is not consumed.
* D)specific level of total income that is consumed.

Answer: D

### Type: G Topic: 1 E: 154-155 MA: 154-155

14. The consumption schedule in the above diagram indicates that:

* A)consumers will maximize their satisfaction where the consumption schedule and 45° line intersect.
* B)up to a point consumption exceeds income, but then falls below income.
* C)the MPC falls as income increases.
* D)households consume as much as they earn.

Answer: B

### Type: A Topic: 1 E: 154 MA: 154

15. The consumption schedule is drawn on the assumption that as income increases consumption will:

* A)be unaffected.
* B)increase absolutely, but remain constant as a percentage of income.
* C)increase absolutely, but decline as a percentage of income.
* D)increase both absolutely and as a percentage of income.

Answer: C

### Type: A Topic: 1 E: 154 MA: 154

16. Which of the following is correct?

* A)APC + APS = 1.
* B) APC + MPS = 1.
* C) APS + MPC = 1.
* D) APS + MPS = 1.

Answer: A

### Type: A Topic: 1 E: 154-156 MA: 161

17. The consumption schedule is such that:

* A)both the APC and the MPC increase as income rises.
* B)the APC is constant and the MPC declines as income rises.
* C)the MPC is constant and the APC declines as income rises.
* D)the MPC and APC must be equal at all levels of income.

Answer: C

### Type: A Topic: 1 E: 154 MA: 154

18. For all levels of income to the left of the intersection of the 45-degree line and the consumption schedule, the APC is:

* A)greater than 100 percent.
* B) less than the APS.
* C) equal to the MPC.
* D) equal to 100 percent.

Answer: A

### Type: A Topic: 1 E: 156 MA: 156

19. The consumption and saving schedules reveal that the:

* A)MPC is greater than zero, but less than one.
* B)MPC and APC are equal at the point where the consumption schedule intersects the 45-degree line.
* C)APS is positive at all income levels.
* D)MPC is equal to or greater than one at all income levels.

Answer: A

### Type: A Topic: 1 E: 156 MA: 156

20. The size of the MPC is assumed to be:

* A)less than zero.
* B) greater than one.
* C) greater than zero, but less than one.
* D) two or more.

Answer: C

### Type: A Topic: 1 E: 153-154 MA: 153-154

21. As disposable income increases, consumption:

* A)and saving both increase.
* C)decreases and saving increases.
* B)and saving both decrease.
* D)increases and saving decreases.

Answer: A

### Type: D Topic: 1 E: 154 MA: 154

22. The average propensity to consume indicates the:

* A)amount by which income exceeds consumption.
* B)relationship between a change in saving and the consequent change in consumption.
* C)percentage of total income that will be consumed.
* D)percentage of a change in income that will be consumed.

Answer: C

### Type: A Topic: 1 E: 153 MA: 153

23. The relationship between consumption and disposable income is such that:

* A)an inverse and stable relationship exists between consumption and income.
* B)a direct, but very volatile, relationship exists between consumption and income.
* C)a direct and relatively stable relationship exists between consumption and income.
* D)the two are always equal.

Answer: C

### Type: A Topic: 1 E: 156 MA: 156

24. If the MPC is . 8 and disposable income is $200, then

* A)consumption and saving cannot be determined from the information given.
* B)saving will be $20.
* C)personal consumption expenditures will be $80.
* D)saving will be $40.

Answer: A

### Type: A Topic: 1 E: 156 MA: 156

25. The MPC for an economy is:

* A)the slope of the consumption schedule or line.
* B)the slope of the savings schedule or line.
* C)1 divided by the slope of the consumption schedule or line.
* D)1 divided by the slope of the savings schedule or line.

Answer: A

### Type: F Topic: 1 E: 158 MA: 158

26. In contrast to investment, consumption is:

* A)relatively stable.
* B) relatively unstable.
* C) measurable.
* D) unmeasurable.

Answer: A

Use the following to answer questions 27-28: Advanced analysis) Answer the next question(s) on the basis of the following consumption schedule: C = 20 + . 9Y , where C is consumption and Y is disposable income.

### Type: E Topic: 1 E: 156 MA: 156

27. Refer to the above data. The MPC is:

* A). 45.
* B) . 20.
* C) . 50.
* D) . 90.

Answer: D

### Type: E Topic: 1 E: 156 MA: 156

28. Refer to the above data. At an $800 level of disposable income, the level of saving is:

* A)$180.
* B) $740.
* C) $60.
* D) $18.

Answer: C

### Type: A Topic: 1 E: 156 MA: 156

29. Which one of the following will cause a movement down along an economy's consumption schedule?

* A)an increase in stock prices
* C)an increase in consumer indebtedness
* B)a decrease in stock prices
* D)a decrease in disposable income

Answer: D

### Type: G Topic: 1 E: 156 MA: 156

30. The above diagram shows consumption schedules for economies A and B. We can say that the:

* A)MPC is greater in B than in A.
* B)APC at any given income level is greater in B than in A.
* C)MPS is smaller in B than in A.
* D)MPC is greater in A than in B.

Answer: D

### Type: A Topic: 1 E: 154 MA: 154

31. At the point where the consumption schedule intersects the 45-degree line:

* A)the MPC is 1. 00.
* C)saving is equal to consumption.
* B)the APC is 1. 0.
* D)the economy is in equilibrium.

Answer: B

### Type: C Topic: 1 E: 156 MA: 156

32. Holly's break-even level of income is $10, 000 and her MPC is 0. 75. If her actual disposable income is $16, 000, her level of:

* A)consumption spending will be $14, 500.
* C)consumption spending will be $13, 000.
* B)consumption spending will be $15, 500.
* D)saving will be $2, 500.

Answer: A

### Type: A Topic: 1 E: 156 MA: 156

33. If Ben's MPC is . 80, this means that he will:

* A)spend eight-tenths of any increase in his disposable income.
* B)spend eight-tenths of any level of disposable income.
* C)break even when his disposable income is $8, 000.
* D)save two-tenths of any level of disposable income.

Answer: A

### Type: A Topic: 1 E: 154 MA: 154

34. Suppose afamily's consumption exceeds its disposable income. This means that its:

* A)MPC is greater than 1.
* B) MPS is negative.
* C) APC is greater than 1.
* D) APS is positive.

Answer: C

### Type: E Topic: 1 E: 154 MA: 154

35. (Advanced analysis) If the equation for the consumption schedule is C = 20 + 0. 8Y , where C is consumption and Y is disposable income, then the average propensity to consume is 1 when disposable income is:

* A)$80.
* B) $100.
* C) $120.
* D) $160.

Answer: B

### Type: E Topic: 1 E: 156 MA: 156

36. (Advanced analysis) The equation C = 35 + . 75Y , where C is consumption and Y is disposable income, shows that:

* A)households will consume three-fourths of whatever level of disposable income they receive.
* B)households will consume $35 if their disposable income is zero and will consume three-fourths of any increase in disposable income they receive.
* C)there is an inverse relationship between disposable income and consumption.
* D)households will save $35 if their disposable income is zero and will consume three-fourths of any increase in disposable income they receive.

Answer: B

### Type: E Topic: 1 E: 156 MA: 156

37. Advanced analysis) If the equation C = 20 + . 6Y , where C is consumption and Y is disposable income, were graphed:

* A)the vertical intercept would be +. 6 and the slope would be +20.
* B)it would reveal an inverse relationship between consumption and disposable income.
* C)the vertical intercept would be negative, but consumption would increase as disposable income rises.
* D)the vertical intercept would be +20 and the slope would be +. 6.

Answer: D

### Type: A Topic: 1 E: 154 MA: 154

38. One can determine the amount of any level of total income that is consumed by:

* A)multiplying total income by the slope of the consumption schedule.
* B)multiplying total income by the APC.
* C)subtracting the MPS from total income.
* D)multiplying total income by the MPC.

Answer: B

### Type: C Topic: 1 E: 154, 156 MA: 154, 156

39. Which of the following is correct?

* A)MPC + MPS = APC + APS
* C)APC + MPC = APS + MPS
* B)APC + MPS = APS + MPC
* D)APC - APS = MPC - MPS

Answer: A Saving function/APS/MPS

### Type: A Topic: 2 E: 154 MA: 154

40. The consumption and saving schedules reveal that:

* A)consumption rises, but saving declines, as disposable income rises.
* B)saving varies inversely with the profitability of investment.
* C)saving varies directly with the level of disposable income.
* D)saving is inversely related to the rate of interest.

### Answer: C

### Type: D Topic: 2 E: 154 MA: 154

41. Dissaving means:

* A)the same thing as disinvesting.
* B)that households are spending more than their current incomes.
* C)that saving and investment are equal.
* D)that disposable income is less than zero.

Answer: B

### Type: D Topic: 2 E: 154 MA: 154

42. Dissaving occurs where:

* A)income exceeds consumption.
* C)consumption exceeds income.
* B)saving exceeds consumption.
* D)saving exceeds income.

Answer: C

### Type: A Topic: 2 E: 156 MA: 156

43. Which of the following relations is not correct?

* A)1 - MPC = MPS
* B) APS + APC = 1
* C) MPS = MPC + 1
* D) MPC + MPS = 1

Answer: C

### Type: A Topic: 2 E: 154 MA: 154

44. The saving schedule is drawn on the assumption that as income increases:

* A)saving will decline absolutely and as a percentage of income.
* B)saving will increase absolutely, but remain constant as a percentage of income.
* C)saving will increase absolutely, but decline as a percentage of income.
* D)saving will increase absolutely and as a percentage of income.

Answer: D

### Type: A Topic: 2 E: 154 MA: 154

45. At the point where the consumption schedule intersects the 45-degree line:

* A)the MPC equals 1.
* B) the APC is zero.
* C) saving equals income.
* D) saving is zero.

Answer: D

### Type: A Topic: 2 E: 154 MA: 154

46. The saving schedule is such that as aggregate income increases by a certain amount saving:

* A)increases by the same amount as the increase in income.
* B)does not change.
* C)increases, but by a smaller amount.
* D)increases by an even larger amount.

Answer: C

### Type: A Topic: 2 E: 156 MA: 156

47. If the consumption schedule is linear, then the:

* A)saving schedule will also be linear.
* C)MPC will decline as income rises.
* B)MPS will decline as income rises.
* D)APC will be constant at all levels of income.

Answer: A

### Type: A Topic: 2 E: 153 MA: 153

48. Given the consumption schedule, it is possible to graph the relevant saving schedule by:

* A)subtracting the MPC from 1 at each level of income.
* B)subtracting investment from consumption at each level of GDP.
* C)plotting the horizontal differences between the consumption schedule and the 45-degree line.
* D)plotting the vertical differences between the consumption schedule and the 45-degree line.

Answer: D

### Type: A Topic: 2 E: 154 MA: 154

49. As aggregate income decreases, the APC:

* A)and APS will both increase.
* C)will increase, but the APS will decrease.
* B)will decrease, but the APS will increase.
* D)and APS will both decrease.

Answer: C

### Type: A Topic: 2 E: 156 MA: 156

50. If the marginal propensity to consume is . 9, then the marginal propensity to save must be:

* A)1.
* B) . 1.
* C) 1. 1.
* D) . 9.

Answer: B

### Type: A Topic: 2 E: 156 MA: 156

51. The greater is the marginal propensity to consume, the:

* A)smaller is the marginal propensity to save.
* C)lower is the average propensity to consume.
* B)higher is the interest rate.
* D)lower is the price level.

Answer: A

### Type: A Topic: 2 E: 156 MA: 156

52. If the saving schedule is a straight line, the:

* A)MPS must be constant.
* C)APC must be constant.
* B)APS must be constant.
* D)MPC must be rising.

Answer: A

### Type: A Topic: 2 E: 154 MA: 154

53. Which one of the following will cause a movement up along an economy's saving schedule?

* A)an increase in household debt outstanding
* C)an increase in stock prices
* B)an increase in disposable income
* D)an increase in interest rates

Answer: B Shifts in consumption and saving functions

### Type: D Topic: 3 E: 156-157 MA: 156-157

54. In the late 1990s the U. S. stock market boomed, causing U. S. consumption to rise. Economists refer to this outcome as the:

* A)Keynes effect.
* B) interest-rate effect.
* C) wealth effect.
* D) multiplier effect.

Answer: C

### Type: A Topic: 3 E: 157 MA: 157

55. The wealth effect is shown graphically as a:

* A)shift of the consumption schedule.
* B)movement along an existing consumption schedule.
* C)shift of the investment schedule.
* D)movement along an existing investment schedule.

Answer: A

Use the following to answer questions 56-59:

### Type: G Topic: 3 E: 157 MA: 157

56. Refer to the above graph. A movement from b to a along C1 might be caused by a:

* A)recession.
* B)wealth effect of an increase in stock market prices.
* C)decrease in income tax rates.
* D)increase in saving.

Answer: A

### Type: G Topic: 3 E: 157 MA: 157

57. Refer to the above graph. A shift of the consumption schedule from C1 to C2 might be caused by a:

* A)recession.
* B)wealth effect of an increase in stock market prices.
* C)increase in income tax rates.
* D)increase in saving.

Answer: B

### Type: G Topic: 3 E: 157 MA: 157

58. Refer to the above graph. A movement from a to b along C1 might be caused by a:

* A)recession.
* B)wealth effect of an increase in stock market prices.
* C)increase in income tax rates.
* D)increase in real GDP.

Answer: D

### Type: G Topic: 3 E: 157 MA: 157

59. Refer to the above graph. A shift of the consumption schedule from C2 to C1 might be caused by a:

* A)increase in real GDP.
* B)reverse wealth effect, caused by a decrease in stock market prices.
* C)decrease in income tax rates.
* D)decrease in saving.

Answer: B

### Type: C Topic: 3 E: 157 MA: 157

60. An upward shift of the saving schedule suggests:

* A)nothing withrespectto changes in the APC and APS.
* B)that the APC and APS have both decreased at each GDP level.
* C)that the APC and APS have both increased at each GDP level.
* D)that the APC has decreased and the APS has increased at each GDP level.

Answer: D

### Type: A Topic: 3 E: 157 MA: 157

61. Which of the following will not tend to shift the consumption schedule upward?

* A)a currently small stock of durable goods in the possession of consumers
* B)the expectation of a future decline in the consumer price index
* C)a currently low level of household debt.
* D)the expectation of future shortages of essential consumer goods.

Answer: B

### Type: A Topic: 3 E: 157 MA: 157

62. If the consumption schedule shifts upward and the shift was not caused by a tax change, the saving schedule:

* A)will not shift.
* C)will shift downward.
* B)may shift either upward or downward.
* D)will also shift upward.

Answer: C

### Type: A Topic: 3 E: 156 MA: 156

63. Which of the following will not cause the consumption schedule to shift?

* A)a sharp increase in the amount of wealth held by households
* B)a change in consumer incomes
* C)the expectation of a recession
* D)a growing expectation that consumer durables will be in short supply

Answer: B

### Type: A Topic: 3 E: 157 MA: 157

64. An increase in personal taxes will shift:

* A)both the consumption and saving schedules downward.
* B)both the consumption and saving schedules upward.
* C)the consumption schedule upward and the saving schedule downward.
* D)the consumption schedule downward and the saving schedule upward.

Answer: A

### Type: A Topic: 3 E: 157 MA: 157

65. If for some reason households become increasingly thrifty, we could show this by:

* A)a downshift of the saving schedule.
* C)an upshift of the saving schedule.
* B)an upshift of the consumption schedule.
* D)an increase in the equilibrium GDP.

Answer: C

### Type: G Topic: 3 E: 156 MA: 156

66. Suppose the economy's saving schedule shifts from S1 to S 2 as shown in the above diagram. We can say that its:

* A)MPC has increased.
* B)MPS has increased.
* C)APS has increased at all levels of disposable income.
* D)APS has decreased at all levels of disposable income.

Answer: B

### Type: C Topic: 3 E: 154 MA: 154

67. If a consumption schedule shifts upward, this necessarily means that the:

* A)MPC has increased.
* B)MPS has decreased.
* C)APC is now higher at each level of disposable income.
* D)APC is now lower at each level of disposable income.

Answer: C

### Type: A Topic: 3 E: 158 MA: 158

68. Assume the economy's consumption and saving schedules simultaneously shift downward. This must be the result of:

* A)an increase in disposable income.
* C)an increase in personal taxes.
* B)an increase in household wealth.
* D)the expectation of a recession.

Answer: C

### Type: G Topic: 3 E: 154 MA: 154

69. Suppose an economy's consumption schedule shifts from C1 to C2 as shown in the above diagram. We can say that its:

* A)MPC has increased but its APC at each income level is unchanged.
* B)APC at each income level is increased but its MPC is unchanged.
* C)MPC and APC at each income level have both increased.
* D)MPC and APC at each income level have both decreased.

Answer: C

Graphs/tables: mixed consumption and saving Use the following to answer questions 70-72:

### Type: T Topic: 4 E: 156 MA: 156

70. Refer to the above data. The marginal propensity to consume is:

* A). 25.
* B) . 75.
* C) . 20.
* D) . 80.

Answer: D

### Type: T Topic: 4 E: 154 MA: 154

71. Refer to the above data. At the $200 level of disposable income:

* A)the marginal propensity to save is 2? percent.
* C)the average propensity to save is . 20.
* B)dissaving is $5.
* D)the average propensity to consume is . 80.

Answer: B

### Type: T Topic: 4 E: 156 MA: 156

72. Refer to the above data. If disposable income was $325, we would expect consumption to be:

* A)$315.
* B) $305.
* C) $20.
* D) $290.

Answer: B

Use the following to answer questions 73-78:

### Type: G Topic: 4 E: 154 MA: 154

73. Refer to the above diagram. The average propensity to consume is 1 at point:

* A)F.
* B) A.
* C) D.
* D) B.

Answer: B

### Type: G Topic: 4 E: 156 MA: 156

74. Refer to the above diagram. The marginal propensity to consume is equal to:

* A)AE/0E.
* B) CF/CD.
* C) CB/AB.
* D) CD/CF.

Answer: C

### Type: G Topic: 4 E: 154-155 MA: 154-155

75. Refer to the above diagram. At income level F the volume of saving is:

* A)BD.
* B) AB.
* C) CF-BF.
* D) CD.

Answer: D

### Type: G Topic: 4 E: 154 MA: 154

76. Refer to the above diagram. Consumption will be equal to income at:

* A)an income of E.
* B) an income of F.
* C) point C.
* D) point D.

Answer: A

### Type: G Topic: 4 E: 154-155 MA: 154-155

77. Refer to the above diagram. The economy is dissaving:

* A)in the amount CD.
* C)at income level H.
* B)at all income levels greater than E.
* D)at income level E.

Answer: C

### Type: G Topic: 4 E: 156 MA: 156

78. Refer to the above diagram. The marginal propensity to save is:

* A)CD/EF.
* B) CB/CF.
* C) CB/AF.
* D) EF/CB.

Answer: A

Use the following to answer questions 79-80:

### Type: A Topic: 4 E: 153 MA: 153

79. The above figure suggests that:

* A)consumption would be $60 billion even if income were zero.
* B)saving is zero at the $120 billion income level.
* C)as income increases, consumption decreases as a percentage of income.
* D)as income increases, consumption decreases absolutely.

Answer: C

### Type: A Topic: 4 E: 154-155 MA: 154-155

80. Refer to the above figure. If the relevant saving schedule were constructed:

* A)saving would be minus $20 billion at the zero level of income.
* B)aggregate saving would be $60 at the $60 billion level of income.
* C)its slope would be 1/2.
* D)it would slope downward and to the right

Answer: A

Use the following to answer questions 81-83:

Answer the next question(s) on the basis of the following data for a hypothetical economy.

### Type: T Topic: 4 E: 156 MA: 156

81. Refer to the above data. The marginal propensity to consume is:

* A). 80.
* B) . 75.
* C) . 20.
* D) . 25.

Answer: A

### Type: T Topic: 4 E: 154 MA: 154

82. Refer to the above data. At the $100 level of income, the average propensity to save is:

* A). 10.
* B) . 20.
* C) . 25.
* D) . 90.

Answer: A

Type: T Topic: 4 E: 156 MA: 156

83. Refer to the above data. If plotted on a graph, the slope of the saving schedule would be:

* A). 80.
* B) . 10.
* C) . 20.
* D) . 15.

Answer: C

Use the following to answer questions 84-88:

### Type: G Topic: 4 E: 156 MA: 156

84. Refer to the above diagram. The marginal propensity to save is equal to:

* A)CD/0D.
* B) 0B/0A.
* C) 0D/0D.
* D) CD/BD.

Answer: D

### Type: G Topic: 4 E: 154 MA: 154

85. Refer to the above diagram. At disposable income level D, the average propensity to save is equal to:

* A)CD/BD.
* B) CD/D.
* C) D/CD.
* D) A/B.

Answer: B

### Type: G Topic: 4 E: 154-155 MA: 154-155

86. Refer to the above diagram. At disposable income level D, consumption is:

* A)equal to CD.
* B) equal to D minus CD.
* C) equal to CD/D.
* D) equal to CD plus BD.

Answer: B

### Type: G Topic: 4 E: 154-155 MA: 154-155

87. Refer to the above diagram. Consumption equals disposable income when:

* A)disposable income is B.
* B) disposable income is D.
* C) CD equals A.
* D) B equals CD.

Answer: A

### Type: A Topic: 4 E: 156-157 MA: 156-157

88. The saving schedule shown in the above diagram would shift downward if, all else equal:

* A)the average propensity to save increased at each income level.
* B)the marginal propensity to save rose at each income level.
* C)consumer wealth rose rapidly because of a significant increase in stock market prices.
* D)the real interest rate fell.

Answer: C

Use the following to answer questions 89-96:

Answer the next question(s) on the basis of the following consumption schedules. DI signifies disposable income and C represents consumption expenditures. All figures are in billions of dollars.

### Type: T Topic: 4 E: 156 MA: 156

89. Refer to the above data. The marginal propensity to consume in economy (1) is:

* A). 5.
* B) . 3.
* C) . 8.
* D) . 7.

Answer: D

### Type: T Topic: 4 E: 156 MA: 156

90. Refer to the above data. The marginal propensity to consume:

* A)is highest in economy (1).
* C)is highest in economy (3).
* B)is highest in economy (2).
* D)cannot be calculated from the data given.

Answer: C

### Type: T Topic: 4 E: 156 MA: 156

91. Refer to the above data. The marginal propensity to save:

* A)is highest in economy (1).
* C)is highest in economy (3).
* B)is highest in economy (2).
* D)cannot be determined from the data given.

Answer: A

### Type: T Topic: 4 E: 154 MA: 154

92. Refer to the above data. At an income level of $40 billion, the average propensity to consume:

* A)is highest in economy (1).
* C)is highest in economy (3).
* B)is highest in economy (2).
* D)cannot be determined from the data given.

Answer: B

### Type: T Topic: 4 E: 154 MA: 154

93. Refer to the above data. At an income level of $400 billion, the average propensity to save in economy (2) is:

* A). 9125.
* B) . 0725.
* C) . 0875.
* D) . 9305.

Answer: C

### Type: T Topic: 4 E: 156 MA: 156

94. (Advanced analysis) Refer to the above data. When plotted on a graph, the vertical intercept of the consumption schedule in economy (3) is \_\_\_\_\_ and the slope is \_\_\_\_\_.

* A)minus $2; . 9.
* B) $2; . 18.
* C) $100; . 5.
* D) $2; . 9.

Answer: D

### Type: T Topic: 4 E: 158 MA: 158

95. Refer to the above data. Suppose that consumption decreased by $2 billion at each level of DI in each of the three countries. We can conclude that the:

* A)marginal propensity to consume will remain unchanged in each of the three countries.
* B)marginal propensity to consume will decline in each of the three countries.
* C)average propensity to save will fall at each level of DI in each of the three countries.
* D)marginal propensity to save will rise in each of the three countries.

Answer: A

### Type: T Topic: 4 E: 157 MA: 157

96. Refer to the above data. A $2 billion increase in consumption at each level of DI could be caused by:

* A)a decrease in consumer wealth.
* C)an increase in taxation.
* B)new expectations of higher future income.
* D)an increase in saving.

Answer: B

Use the following to answer questions 97-100:

### Type: G Topic: 4 E: 154 MA: 154

97. Refer to the above diagram. The break-even level of disposable income:

* A)is zero.
* B) is minus $10.
* C) is $100.
* D) cannot be determined from the information given.

Answer: C

### Type: G Topic: 4 E: 156 MA: 156

98. Refer to the above diagram. The marginal propensity to consume is:

* A). 2.
* B) . 8.
* C) . 4.
* D) . 3.

Answer: B

### Type: G Topic: 4 E: 156 MA: 156

99. (Advanced analysis) The equation for the above saving schedule is:

* A)Yd = -20 + . 8S.
* B) Yd = 20 + . 2S.
* C) S = -20 + . 2Yd.
* D) S = 20 + . 8Yd.

Answer: C

### Type: G Topic: 4 E: 154-155 MA: 154-155

100. Refer to the above diagram. The average propensity to consume:

* A)is greater than 1 at all levels of disposable income above $100.
* B)is greater than 1 at all levels of disposable income below $100.
* C)is equal to the average propensity to save.
* D)cannot be determined from the information given.

Answer: B

Use the following to answer questions 101-104:

### Type: G Topic: 4 E: 154 MA: 154

101. Refer to the above diagram. The break-even level of income is:

* A)zero.
* B) $150.
* C) $60.
* D) $120.

Answer: B

### Type: G Topic: 4 E: 154 MA: 154

102. Refer to the above diagram. The average propensity to consume is:

* A)greater than 1 at all levels of income above $150.
* B)greater than 1 at all levels of income below $150.
* C)zero.
* D). 6.

Answer: B

### Type: G Topic: 4 E: 156 MA: 156

103. Refer to the above diagram. The marginal propensity to consume is:

* A). 4.
* B) . 6.
* C) . 5.
* D) . 8.

Answer: B

### Type: G Topic: 4 E: 156 MA: 156

104. (Advanced analysis) Refer to the above diagram. The equation for the consumption schedule is:

* A)C = . 6Y .
* B) Y = 60 + . C.
* C) C = 60 + . 6Y .
* D) C = 60 + . 4Y .

Answer: C

Use the following to answer questions 105-106: (Advanced analysis) Answer the next question(s) on the basis of the following data:

### Type: T Topic: 4 E: 156 MA: 156

105. Which of the following equations correctly represents the above data?

* A)Yd = 40 + . 6C
* B) C = 60 + . 4Yd
* C) C = 40 + . 6Yd
* D) C = . 6Yd

Answer: C

### Type: T Topic: 4 E: 156 MA: 156

106. Which of the following equations represents the saving schedule implicit in the above data?

* A)S = C - Yd
* B) S = 40 + . 4Yd
* C) S = 40 + . 6Yd
* D) S = -40 + . Yd

Answer: D

Investment demand

### Type: F Topic: 5 E: 160 MA: 160 Status: New

107. The investment demand curve portrays an inverse (negative) relationship between:

* A)investment and real GDP.
* C)the nominal interest rate and investment.
* B)the real interest rate and investment.
* D)the price level and investment.

Answer: B

Type: F Topic: 5 E: 160 MA: 160 Status: New

108. The investment demand slopes downward and to the right because lower real interest rates:

* A)expand consumer borrowing, making investments more profitable.
* B)boost expected rates of returns on investment.
* C)enable more investment projects to be undertaken profitably.
* D)create tax incentives to invest.

Answer: C

Type: A

Topic: 5 E: 159 MA: 159 Status: New

109. Other things equal, a decrease in the real interest rate will:

* A)shift the investment demand curve to the right.
* B)shift the investment demand curve to the left.
* C)move the economy upward along its existing investment demand curve.
* D)move the economy downward along its existing investment demand curve.

Answer: D

### Type: A Topic: 5 E: 159 MA: 159

110. Suppose that a new machine tool having a useful life of only one year costs $80, 000. Suppose, also, that the net additional revenue resulting from buying this tool is expected to be $96, 000. The expected rate of return on this tool is:

* A)80 percent.
* B) 8 percent.
* C) 2 percent.
* D) 20 percent.

Answer: D

### Type: A Topic: 5 E: 159 MA: 159

111. Assume a machine which has a useful life of only one year costs $2, 000. Assume, also, that net of such operating costs as power, taxes, and so forth, the additional revenue from the output of this machine is expected to be $2, 300. The expected rate of return on this machine is:

* A)7. 5 percent.
* B) 10 percent.
* C) 15 percent.
* D) 20 percent.

Answer: C

### Type: A Topic: 5 E: 159 MA: 159

112. If the firm in the previous question finds it can borrow funds at an interest rate of 10 percent the firm should:

* A)not purchase the machine because the expected rate of return exceeds the interest rate.
* B)not purchase the machine because the interest rate exceeds the expected rate of return.
* C)purchase