

# Chapter 9

## macroeconomic relationships topic

[Life](#), [Relationships](#)



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**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:

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- 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 a family'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?

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- 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 with respect to 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  $S_1$  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)  $AE/OE$ .
- 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)  $CD/OD$ .
- B)  $OB/OA$ .
- C)  $OD/OD$ .
- 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:

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- 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)  $Y_d = -20 + .8S$ .
- B)  $Y_d = 20 + .2S$ .
- C)  $S = -20 + .2Y_d$ .
- D)  $S = 20 + .8Y_d$ .

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)  $Y_d = 40 + .6C$
- B)  $C = 60 + .4Y_d$
- C)  $C = 40 + .6Y_d$
- D)  $C = .6Y_d$

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)  $S = C - Y_d$

- B)  $S = 40 + .4Y_d$
- C)  $S = 40 + .6Y_d$
- D)  $S = -40 + .Y_d$

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