1) In the Keynesian model of aggregate expenditure, real GDP is determined by the
A) price level.
B) level of aggregate demand.
C) level of aggregate supply.
D) level of taxes.
Answer: B

2) If firms set prices and then keep them fixed for a period of time, their fixed prices imply that
A) the aggregate price level is fixed and that aggregate demand determines the
quantity of goods and services sold.
B) prices are set by aggregate demand and supply.
C) the aggregate price level adjusts continuously.
D) the aggregate price level is fixed and that aggregate supply determines the quantity
of goods and services sold.
Answer: A

3) In the very short term, in the Keynesian model, which of the following is fixed and
does not change when GDP changes?
A) planned investment
B) planned consumption
C) planned imports
D) All of the above answers are correct
Answer: A

4) A consumption function shows a
A) negative (inverse) relationship between consumption expenditure and saving.
B) positive (direct) relationship between consumption expenditure and price level.
C) negative (inverse) relationship between consumption expenditure and disposable income.
D) positive (direct) relationship between consumption expenditure and disposable income.
Answer: D

5) The slope of the consumption function is
A) less than the slope of the 45-degree line but not equal to zero.
B) greater than the slope of the 45-degree line.
C) equal to the slope of the 45-degree line.
D) equal to zero.
Answer: A

6) A movement along the consumption function is the result of changes in
   A) the real interest rate.
   B) disposable income.
   C) expected future income.
   D) All of the above answers are correct.
   Answer: B

7) When disposable income equals $800 billion, planned consumption expenditure equals $600 billion, and when disposable income equals $1,000 billion, planned consumption expenditure equals $640 billion. What is planned saving when disposable income is $800 billion?
   A) $200 billion
   B) $360 billion
   C) $560 billion
   D) $1,400 billion
   Answer: A

8) Saving rather than dissaving occurs at any level of disposable income at which
   A) the consumption function is above the 45-degree line.
   B) the consumption function intersects the saving/income curve.
   C) the consumption function is below the 45-degree line.
   D) autonomous consumption is positive.
   Answer: C

9) An increase in disposable income shifts
   A) both the consumption and savings functions upward.
   B) the consumption function upward and leads to a movement along the savings function.
   C) both the consumption and savings functions downward.
   D) neither the consumption function or the savings function because it leads to a movement along both the consumption and savings function.
   Answer: D

10) The marginal propensity to consume measures how much
    A) disposable income is consumed.
B) disposable income goes to saving.
C) consumption expenditure occurs at the equilibrium income.
D) of a change in disposable income will be consumed.
Answer: D

11) If the marginal propensity to consume is 0.8, every $10 increase in disposable income increases
A) consumption expenditure by $0.80.
B) consumption expenditure by $18.00.
C) saving by $0.20.
D) consumption expenditure by $8.00.
Answer: D

<table>
<thead>
<tr>
<th>Disposable income (dollars)</th>
<th>Consumption expenditure (dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>225</td>
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<tr>
<td>200</td>
<td>300</td>
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<td>300</td>
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<td>400</td>
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<td>500</td>
<td>525</td>
</tr>
<tr>
<td>600</td>
<td>600</td>
</tr>
</tbody>
</table>

12) Using the above table, if disposable income is $400, saving is
A) $50.
B) $0.
C) $50.
D) $100.
Answer: A

13) Using the data in above table, the marginal propensity to consume is
A) increasing as disposable income increases.
B) equal to 1.0 when disposable income equals $600.
C) constant at 0.75.
D) constant at 0.25.
Answer: C

14) Using the data from the above table, the marginal propensity to save is
A) falling as disposable income is rising.
B) 0 when disposable income is $600.
C) constant at 0.25.
D) constant at 0.75.
Answer: C

15) If the real interest rate rises, the consumption function
A) shifts upward.
B) shifts downward.
C) is unaffected.
D) has a steeper slope.
Answer: B

16) If wealth increases, the consumption function
A) shifts upward.
B) shifts downward.
C) is unaffected.
D) has a steeper slope.
Answer: A

17) A decrease in expected future income ________ consumption expenditure and ________ saving.
A) increases; increases
B) increases; decreases
C) decreases; increases
D) decreases; decreases
Answer: C

18) The marginal propensity to save is ________.
A) always greater than the marginal propensity to consume
B) equal to the slope of the saving function
C) equal to 1 plus the slope of the consumption function
D) equal to the inverse of the marginal propensity to consume
Answer: B

19) Which of the following events will make the consumption function steeper?
A) an increase in disposable income
B) an increase in real GDP
C) an increase in the marginal propensity to consume
D) an increase in unplanned inventory investment
Answer: C

20) The figure above illustrates an economy's consumption function. What is the marginal propensity to consume in this economy?
A) 0.67
B) 1.00
C) 0.75
D) 0.33
Answer: D

21) The figure above illustrates an economy's consumption function. What is the marginal propensity to save in this economy?
A) 0.67
B) 1.00
C) 0.75
D) 0.33
Answer: A

22) The figure above illustrates an economy's consumption function. What is autonomous consumption in this economy?
A) $0
B) $2 million
C) $3 million
D) None of the above answers is correct.  
Answer: B  

23) As a nation's GDP increases, that nation's  
A) autonomous consumption increases.  
B) autonomous consumption decreases. 
C) exports increase.  
D) imports increase.  
Answer: D  

24) A change in imports caused by rising U.S. incomes is  
A) an increase in autonomous expenditure.  
B) a decrease in autonomous expenditure.  
C) an increase in induced exports.  
D) a change in induced expenditure.  
Answer: D  

25) Autonomous expenditure refers to  
A) aggregate expenditure solely prompted by policy.  
B) changes in short-run aggregate supply. 
C) aggregate expenditure that does not change when real GDP changes.  
D) aggregate expenditure that varies because of changes in real GDP.  
Answer: C  

26) Which of the following are included in autonomous expenditure?  
A) investment  
B) government expenditures  
C) autonomous consumption expenditure  
D) all of the above  
Answer: D  

27) Which of the following variables is NOT assumed to be completely autonomous in the aggregate expenditure model?  
A) investment  
B) government expenditures on goods and services  
C) exports  
D) imports  
Answer: D
28) Which of the following statements is correct?
A) Actual aggregate expenditures does not always equal real GDP.
B) Planned investment exceeds actual investment when real GDP is greater than aggregate planned expenditures.
C) Actual investment exceeds planned investment when real GDP is less than aggregate planned expenditures.
D) None of the above is correct.
Answer: D

29) If prices are fixed, when aggregate planned expenditure exceeds real GDP, then
A) inventories decrease, signaling firms to increase production and increase real GDP.
B) inventories increase, signaling firms to decrease production and decrease real GDP.
C) profits fall, signaling firms to decrease production and decrease real GDP.
D) None of the above answers are correct.
Answer: A

30) When investment is less than planned investment, aggregate planned expenditure is ________ than actual aggregate expenditure and inventories are ________ than planned.
A) greater; greater
B) greater; less
C) less; greater
D) less; less
Answer: B

31) In the aggregate expenditure model, when real GDP is greater than aggregate planned expenditure,
A) unplanned inventories are being accumulated.
B) inventories are being depleted.
C) inventories are not being changed.
D) this cannot happen, because the two variables are always equal.
Answer: A
32) In the above figure, at the equilibrium, induced expenditure is
A) $100 billion.
B) $200 billion.
C) $300 billion.
D) some amount not given in the above answers.
Answer: A

33) In the above figure, autonomous expenditure is
A) $100 billion.
B) $200 billion.
C) $300 billion.
D) some amount not given in the above answers.
Answer: B

34) In the above figure, if real GDP is below $300 billion, inventories will be
A) below target levels, so firms increase production.
B) below target levels, so firms decrease production.
C) above target levels, so firms increase production.
D) above target levels, so firms decrease production.
Answer: A

35) In the above figure, if real GDP is greater than $300 billion, inventories will be
A) below target levels so firms increase production.
B) below target levels so firms decrease production.
C) above target levels so firms increase production.
D) above target levels so firms decrease production.
Answer: D

36) When there is unplanned inventory investment, aggregate planned expenditure is __________ real GDP and actual investment is __________ planned investment.
A) greater than; greater than
B) greater than; less than
C) less than; greater than
D) less than; less than
Answer: C

37) If real GDP is $2 billion and planned aggregate expenditure is $2.25 billion, inventories will
A) be depleted and real GDP will increase.
B) be depleted and real GDP will decrease.
C) pile up and real GDP will decrease.
D) pile up and real GDP will increase.
Answer: A

38) Real GDP equals $20 billion and aggregate planned expenditure is $30 billion. There is an unplanned __________ in inventories of _________ and real GDP will ________.
A) increase; $10 billion; increase
B) increase; $50 billion; decrease
C) decrease; $10 billion; increase
D) decrease; $10 billion; decrease
Answer: C

39) The multiplier effect exists because a change in autonomous expenditure
A) leaves the economy in the form of imports.
B) leads to changes in income, which generate further spending.
C) prompts further exports.
D) will undergo its complete effect in one round.
Answer: B

40) If prices are fixed, an increase in aggregate expenditures results in an increase in equilibrium GDP that
A) is greater than the change in aggregate expenditure.
B) is equal to the change in aggregate expenditure.
C) is less than the change in aggregate expenditure.
D) has no necessary relationship to the size of the change in aggregate expenditure.
Answer: A

41) The multiplier is greater than 1 because
A) most households are unable to save.
B) household spending exceeds income.
C) one person's spending becomes another's income.
D) corporate spending exceeds corporate income.
Answer: C

42) The multiplier is larger if the
A) marginal propensity to consume is larger.
B) marginal propensity to save is larger.
C) income tax rate is higher.
D) marginal propensity to import is larger.
Answer: A

43) Suppose that the slope of the AE curve is 0.75. Then a $100 increase in autonomous spending causes equilibrium expenditure to
A) decrease by $400.
B) increase by $400.
C) decrease by $750.
D) increase by $750.
Answer: B

44) In general, the steeper the aggregate expenditure curve, the
A) greater autonomous expenditure.
B) lower the marginal propensity to consume.
C) larger the multiplier.
D) smaller the multiplier.
Answer: C

| Real GDP (trillions of 2000 dollars) | Aggregate expenditure (trillions of 2000 dollars) |
45) The data in the above table indicate that autonomous expenditure is
A) $0.3 trillion.
B) $3.0 trillion.
C) $4.8 trillion.
D) None of the above answers is correct.
Answer: A

46) In the above table, equilibrium expenditure is
A) $0.3 trillion.
B) $3.0 trillion.
C) $4.8 trillion.
D) None of the above answers are correct.
Answer: B

47) The data in the above table indicate that the slope of the AE curve is
A) 0.30.
B) 0.50.
C) 0.90.
D) None of the above answers are correct.
Answer: C

48) In the above table, suppose investment decreases by $0.1 trillion. The multiplier equals
A) 5.0.
B) 9.0.
C) 10.0.
D) None of the above answers are correct.
Answer: C

49) The presence of income taxes and imports make the slope of the aggregate expenditure curve
A) the same as it would be without income taxes and exports.
B) steeper than it would be without income taxes and exports.
C) flatter than it would be without income taxes and exports.
D) probably different than it would be without income taxes and exports but income taxes make it steeper while imports make it flatter.
Answer: C

50) Imports
A) increase the size of the multiplier because imports make disposable income less than real GDP.
B) decrease the size of the multiplier because spending on imports does not increase real GDP in the domestic nation.
C) increase the size of the multiplier because imports are paid for by exports.
D) decrease the size of the multiplier because imports lead to an increase in taxes and government purchases.
Answer: B

51) Changes in which of the following will affect the size of the multiplier?
I. marginal propensity to import
II. marginal propensity to consume
III. marginal income tax rate
A) I only
B) II only
C) I and II only
D) I, II, and III
Answer: D

52) The smaller the slope of the AE curve, ________.
A) the greater is the value of the multiplier
B) the smaller is slope of the saving function
C) the steeper is the consumption function
D) the smaller is the value of the multiplier
Answer: D

53) You observe that unplanned inventories are increasing. You predict that there will be ________.
A) a business cycle
B) an expansion
C) a trough
D)a recession
Answer: D

54) If the multiplier is 4.0 and investment decreases by $2.5 billion, the AD curve
A) shifts rightward by $10 billion.
B) shifts rightward by less than $10 billion.
C) shifts leftward by $10 billion.
D) shifts leftward by more than $30 billion.
Answer: C

55) An increase in ________ shifts the AE curve ________ and an increase in ________ shifts the aggregate demand curve ________.
A) autonomous expenditure; upward; the price level; leftward
B) the price level; downward; autonomous expenditure; rightward
C) the price level; upward; autonomous expenditure; leftward
D) autonomous expenditure; upward; the price level; rightward
Answer: B

56) The slope of the aggregate expenditure curve increases when the marginal propensity to consume ________ or the marginal propensity to import ________.
A) increases; decreases
B) decreases; increases
C) decreases; decreases
D) increases; increases
Answer: A