

Unit 3 Review

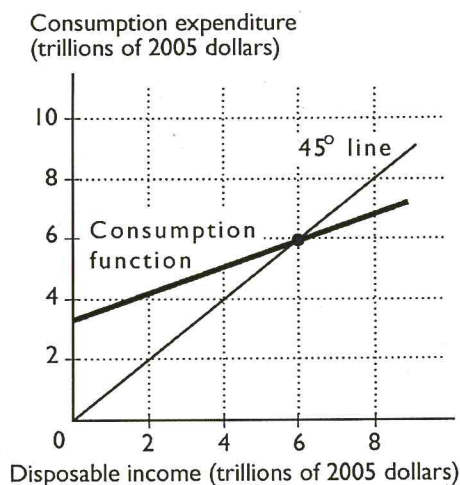
MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) During 2010, a country has consumption expenditures of \$3.0 trillion, investment expenditures of \$1.5 trillion, government expenditure of \$1.5 trillion, exports of \$1.0 trillion, and imports of \$1.5 trillion. Aggregate expenditure for the country is 1) _____
A) \$6.5 trillion.
B) \$8.5 trillion.
C) \$7.0 trillion.
D) \$5.5 trillion.
E) \$6.0 trillion.
- 2) Disposable income equals aggregate income 2) _____
A) minus saving.
B) plus net taxes.
C) minus net taxes.
D) plus saving minus net taxes.
E) minus saving and minus net taxes.
- 3) A movement along the consumption function shows the change in consumption expenditure as a result of a change in 3) _____
A) net taxes.
B) the interest rate.
C) saving.
D) disposable income.
E) the price level.
- 4) In the range of disposable income where the consumption function lies above the 45° line, 4) _____
A) disposable income is negative.
B) disposable income equals planned expenditures.
C) saving is negative.
D) induced consumption is zero.
E) saving is positive.

Disposable income (trillions of 2005 dollars)	Consumption expenditure (trillions of 2005 dollars)
0.0	1.5
2.0	3.0
4.0	4.5
6.0	6.0
8.0	7.5

- 5) The above table has data from the nation of Atlantica. Based on these data, at what point does saving equal zero. 5) _____
A) Between disposable income of \$8.0 trillion and \$7.5 trillion.
B) none, savings occurs at all of the above points
C) Between disposable income of \$0.0 and \$1.5 trillion.
D) none, dissavings occurs at all of the above points
E) At disposable income of \$6.0.

- 6) The above table has data from the nation of Atlantica. Based on these data, when disposable income equals 8.0 there is _____
- A) savings of \$15.5 trillion.
 - B) savings of \$0.5 trillion.
 - C) dissavings of \$0.5 trillion.
 - D) dissavings of \$7.5 trillion.
 - E) dissavings of \$15.5 trillion.

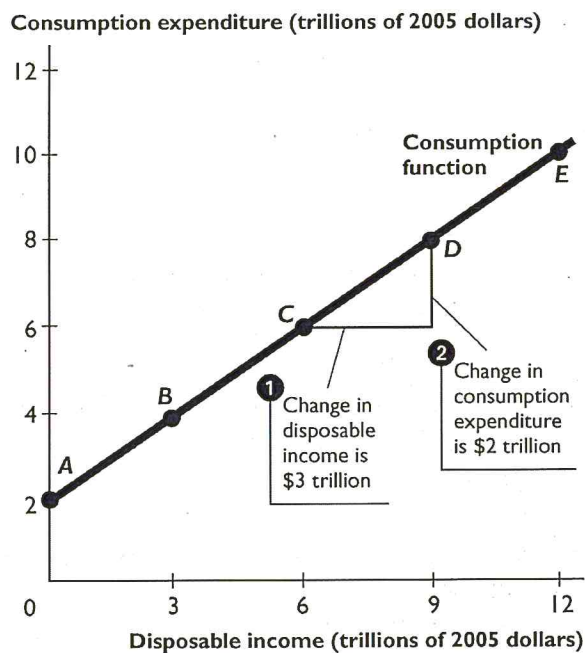


- 7) In the figure above, when disposable income equals \$8 trillion, _____
- A) consumption expenditure is greater than disposable income, so consumers are dissaving.
 - B) consumption expenditure is less than disposable income but it is not possible to determine if consumers are saving or dissaving.
 - C) consumption expenditure is less than disposable income, so consumers are dissaving.
 - D) consumption expenditure is less than disposable income, so consumers are saving.
 - E) consumption expenditure is greater than disposable income, so consumers are saving.
-
- 8) The smaller the amount saved out of a change in disposable income, the _____
- A) smaller is autonomous consumption.
 - B) more net taxes affect consumption.
 - C) smaller the *MPC*.
 - D) larger the *MPC*.
 - E) more horizontal the consumption function.
-
- 9) When Joe's disposable income is \$50,000, his consumption expenditure is \$45,000, and when his disposable income is \$60,000, his consumption expenditure is \$53,000. Joe's marginal propensity to consume is _____
- A) 80.
 - B) \$8,000.
 - C) 100.
 - D) 0.80.
 - E) 1.25
-
- 10) Aggregate planned expenditure decreases if _____
- A) government expenditure on goods and services increases.
 - B) investment increases.
 - C) autonomous consumption increases.
 - D) real GDP decreases.
 - E) exports increase.

- 11) If aggregate planned expenditures equal real GDP, then 11) _____
 A) inventories decrease below their planned levels and businesses increase their production.
 B) inventories increase above their planned levels and businesses decrease their production.
 C) inventories decrease below their planned levels and businesses decrease their production.
 D) unplanned inventory changes equal zero.
 E) there is no equilibrium level of real GDP.
- 12) If real GDP exceeds aggregate planned expenditure, then the change in unplanned inventories is 12) _____
 _____ and firms _____ production.
 A) negative; increase
 B) positive; increase
 C) zero; do not change
 D) positive; decrease
 E) negative; decrease
- 13) During 2015, a country reports aggregate planned expenditures of \$5 trillion and an actual real 13) _____
 GDP of \$4 trillion. During 2015,
 A) inventories are unaffected.
 B) inventories are less than planned.
 C) actual aggregate expenditures are greater than real GDP.
 D) actual aggregate expenditures are less than real GDP.
 E) inventories are greater than planned.
- 14) If a \$2 billion increase in investment brings about a \$5 billion increase in equilibrium expenditure, 14) _____
 we know that the expenditure multiplier equals
 A) 10. B) 5. C) 3. D) 4. E) 2.5.
- 15) If the MPC is 0.6 and there are no imports or income taxes, the expenditure multiplier is 15) _____
 A) 2.5. B) 6. C) 1.7. D) 0.4. E) 0.6.
- 16) The MPC is 0.90 and there are no income taxes or imports. If government expenditures on goods 16) _____
 and services increases by \$2.0 billion, after the multiplier effect works out, aggregate expenditure
 increases by
 A) \$10 billion.
 B) \$2.0 billion.
 C) \$1.8 billion.
 D) \$20 billion.
 E) \$2.22 billion.
- 17) If the slope of the aggregate expenditure curve is 0.5, then the expenditure multiplier equals 17) _____
 A) 4. B) 2. C) 5. D) 3. E) 0.5.
- 18) An increase in the price level shifts the AE curve 18) _____
 A) upward and shifts the AD curve leftward.
 B) upward and shifts the AD curve rightward.
 C) downward and shifts the AD curve rightward.
 D) downward and shifts the AD curve leftward.
 E) downward and does not shift the AD curve.

- 19) When the *AE* curve shifts upward because the price level falls, the corresponding effect on the aggregate demand curve is
- A) a shift leftward of the aggregate demand curve.
 - B) a movement upward along the aggregate demand curve.
 - C) a shift rightward of the aggregate demand curve.
 - D) nothing because aggregate demand does not respond to changes in the price level.
 - E) a movement downward along the aggregate demand curve.

19) _____



The above figure shows a nation's consumption function.

- 20) Using this consumption function, the marginal propensity to consume is
- A) 1.33.
 - B) 0.75.
 - C) \$1.5 trillion.
 - D) 0.
 - E) \$2 trillion.

20) _____

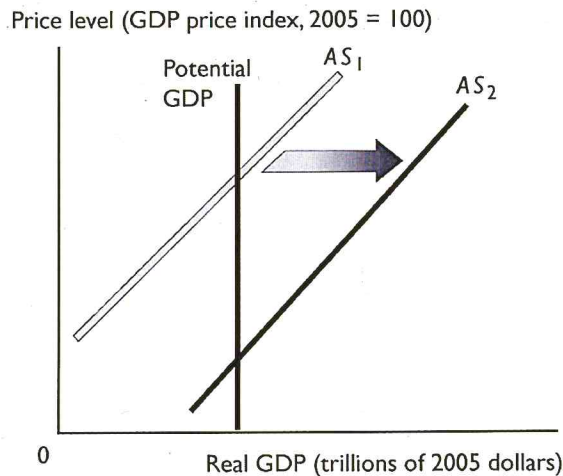
- 21) If the economy is at full employment, then the unemployment rate
- A) is equal to the natural unemployment rate.
 - B) is greater than the natural unemployment rate.
 - C) is equal to zero.
 - D) can be anywhere on a short-run Phillips curve.
 - E) is below the natural unemployment rate.

21) _____

- 22) Moving along the *AS* curve, when the price level increases the
- A) real wage rate falls and there is an increase in the quantity of real GDP supplied.
 - B) real wage rate rises and there is a decrease in the quantity of real GDP supplied.
 - C) nominal wage rate rises and there is a decrease in the quantity of real GDP supplied.
 - D) nominal wage rate falls and there is an increase in the quantity of real GDP supplied.
 - E) real wage rate rises and there is an increase in the quantity of real GDP supplied.

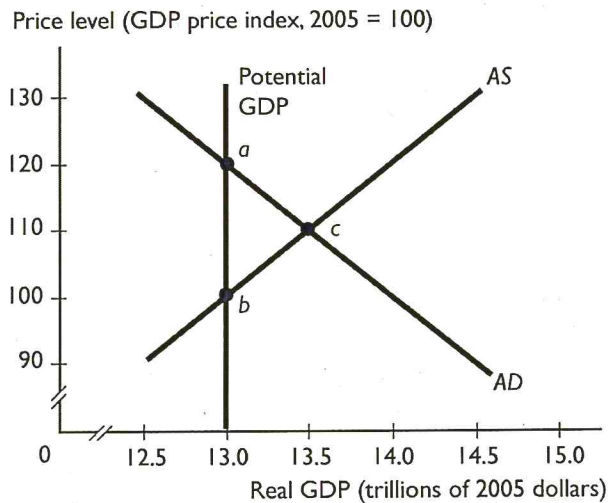
22) _____

- 23) The _____ the _____ is the quantity of real GDP supplied. 23) _____
A) higher the price level; greater
B) lower the price level; greater
C) lower the supply of labor; greater
D) lower aggregate demand; greater
E) greater the demand for labor; smaller
- 24) Which of the following changes aggregate supply and shifts the aggregate supply curve? 24) _____
i. change in the price level
ii. change in potential GDP
iii. change in the money wage rate
A) i, ii, and iii B) i only C) ii and iii D) iii only E) ii only
- 25) A change in the price level brings a _____ the aggregate supply curve, NOT a _____ the aggregate supply curve. 25) _____
A) shift in; movement along
B) vertical displacement of; change in the slope of
C) shift in; change in the slope of
D) movement along; shift in
E) change in the slope of; horizontal displacement of
- 26) Which of the following shifts the aggregate supply curve rightward? 26) _____
i. the money wage rate rises
ii. potential GDP increases
iii. government expenditure on goods and services increases
A) ii only. B) ii and iii. C) i only. D) iii only. E) i, ii, and iii
- 27) A rise in the money wage rate shifts the 27) _____
A) AS curve leftward.
B) AS curve rightward.
C) potential GDP curve rightward.
D) AD curve rightward.
E) AD curve leftward.



- 28) The change reflected in the above figure might be a result of _____ 28) _____
- A) an increase in the money wage rate.
 - B) a decrease in the real wage rate.
 - C) a rise in the price level.
 - D) a decrease in the money wage rate.
 - E) an increase in the real wage rate.
- 29) If the price level increases, there is _____ the *AD* curve and the quantity of real GDP demanded _____ 29) _____
- A) a movement upward along; decreases
 - B) no change in; does not change
 - C) a movement downward along; increases
 - D) a movement upward along; increases
 - E) a leftward shift in; decreases
-
- 30) If people's expectations about future income improve so they think their future income will be higher than previously believed, then the *AD* curve _____ 30) _____
- A) will not shift but potential GDP will increase.
 - B) will not change until income actually rises.
 - C) will shift leftward because people will spend less now.
 - D) will shift rightward because people will increase spending now.
 - E) and the *AS* curve will both shift leftward because people will increase their saving.
- 31) Aggregate demand _____ and shifts the *AD* curve _____ when _____. 31) _____
- A) decreases; leftward; foreign income increases
 - B) increases; leftward; government expenditure increases
 - C) increases; rightward; government expenditure increases
 - D) increases; rightward; future expected profit decreases
 - E) increases; rightward; taxes increase
- 32) Which of the following shifts the aggregate demand curve rightward? 32) _____
- A) a decrease in the quantity of money
 - B) a decrease in the price level
 - C) a tax cut
 - D) a decrease in expected future income
 - E) a decrease in government expenditures on goods and services

- 33) When investment increases, the _____ in aggregate demand is _____ the change in investment. 33) _____
- A) decrease; greater than
 - B) increase; greater than
 - C) increase; smaller than
 - D) decrease; the same as
 - E) increase; the same as
- 34) At a peak in the business cycle, the macroeconomic equilibrium is _____ the level of potential real GDP. 34) _____
- A) less than
 - B) greater than
 - C) falling below
 - D) equal to
 - E) None of the above answers is always correct because the relationship depends on whether the previous phase of the business cycle had been a recession or an expansion.
- 35) A decrease in investment leads to _____ in aggregate demand and _____ in real GDP. 35) _____
- A) an increase; an increase
 - B) an increase; a decrease
 - C) a decrease; a decrease
 - D) no change; a decrease
 - E) a decrease; an increase
- 36) An increase in government expenditure on goods and services _____ aggregate demand, shifting the aggregate demand curve _____ and potentially bringing the _____ phase of the business cycle. 36) _____
- A) decreases; rightward; expansion
 - B) increases; rightward; recession
 - C) increases; rightward; expansion
 - D) increases; leftward; recession
 - E) decreases; leftward; recession
- 37) If real GDP is less than potential GDP, then the money wage rate _____, aggregate supply _____ so that the price level _____. 37) _____
- A) rises; increases; falls
 - B) does not change; increases; falls
 - C) falls; increases; falls
 - D) falls; decreases; rises
 - E) rises; decreases; rises
- 38) Starting from a situation of full employment, a decrease in aggregate demand _____ the price level, leading to _____. 38) _____
- A) lowers; an inflationary gap
 - B) does not change; a decrease in potential GDP
 - C) lowers; a recessionary gap
 - D) raises; a recessionary gap
 - E) raises; an inflationary gap



39) According to the figure above, which point or points correspond to full employment?

39) _____

- A) only point *a*
- B) only point *b*
- C) only point *c*
- D) points *a*, *b*, and *c*
- E) points *a* and *b*

40) Stagflation is a combination of _____ real GDP and a _____ price level.

40) _____

- A) increasing; falling
- B) increasing; rising
- C) decreasing; rising
- D) decreasing; falling
- E) no change in; rising

41) The _____ the _____ is the quantity of real GDP supplied and the _____ is the quantity of _____ real GDP demanded.

41) _____

- A) lower the price level; greater; smaller
- B) lower the supply of labor; greater; smaller
- C) greater the demand for labor; smaller
- D) higher the price level; greater; smaller
- E) lower aggregate demand; greater; smaller

42) When the macroeconomic equilibrium is such that real GDP is less than potential real GDP, the economy is suffering from _____ and the government policy to eliminate this gap will _____ real GDP and to _____ the price level.

42) _____

- A) an inflationary gap; decrease; increase
- B) an inflationary gap; increase; decrease
- C) a recessionary gap; increase; increase
- D) a recessionary gap; decrease; decrease
- E) a recessionary gap; decrease; increase

- 43) If the Fed increases the quantity of money, then 43) _____
- A) aggregate demand decreases and the *AD* curve shifts leftward.
 - B) aggregate demand increases and the *AD* curve shifts rightward.
 - C) the quantity of real GDP demanded increases and there is a movement down along the *AD* curve.
 - D) the quantity of real GDP demanded decreases and there is a movement up along the *AD* curve.
 - E) both the aggregate demand curve and the aggregate supply curve shift leftward.
- 44) Aggregate demand _____ and shifts the *AD* curve _____ when _____. 44) _____
- A) increases; rightward; taxes increase
 - B) increases; leftward; taxes decrease
 - C) decreases; leftward; government expenditure increases
 - D) decreases; leftward; foreign incomes decrease
 - E) decreases; rightward; government expenditure increases
- 45) Suppose the exchange rate in the year 2010 was 4 yuan per dollar and in 2011 the exchange rate fell to 3 yuan per dollar. If the price of a Chinese sweater was 120 yuan in both years, the new dollar price in 2011 would be _____ and imports of Chinese sweaters would _____. 45) _____
- A) \$40; decrease
 - B) \$40; increase
 - C) \$30; decrease
 - D) \$30; increase
 - E) \$40; stay the same because the price stayed the same at 120 yuan

Answer Key

Testname: UNIT 3_REVIEW TEST

- 1) D
 - 2) C
 - 3) D
 - 4) C
 - 5) E
 - 6) B
 - 7) D
 - 8) D
 - 9) D
 - 10) D
 - 11) D
 - 12) D
 - 13) B
 - 14) E
 - 15) A
 - 16) D
 - 17) B
 - 18) E
 - 19) E
 - 20) B
 - 21) A
 - 22) A
 - 23) A
 - 24) C
 - 25) D
 - 26) A
 - 27) A
 - 28) D
 - 29) A
 - 30) D
 - 31) C
 - 32) C
 - 33) B
 - 34) B
 - 35) C
 - 36) C
 - 37) C
 - 38) C
 - 39) E
 - 40) C
 - 41) D
 - 42) C
 - 43) B
 - 44) D
 - 45) A
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