** Review **

For Test 2

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

Refer to the information provided in Table 7.3 below to answer the questions that follow.

Table 7.3

	Units Purchased	Price per Unit in 2009	2010	2011	2012
Blueberries	8	$2.00	$2.00	$2.10	$2.40
Pineapples	5	$2.00	$2.50	$2.50	$3.00
Cheese	3	$2.50	$3.00	$3.50	$4.00

1) Refer to Table 7.3. If 2010 is the base year, the inflation rate between 2010 and 2011 is   1) _____
   A) 3.9%.   B) 6.1%.   C) 7.4%.   D) 10.2%.

2) Refer to Table 7.3. The lowest inflation rate is between the years   2) _____
   A) 2009 and 2010.
   B) 2010 and 2011.
   C) 2011 and 2012.
   D) cannot be determined from the given information

3) If you save $80 when you experience a $400 rise in your income,   3) _____
   A) your *MPC* is 0.80.   B) your *MPC* is 0.85.
   C) your *MPS* is 0.40.   D) your *MPS* is 0.25.

4) If the *MPS* is 0.22, the *MPC* is   4) _____
   A) -0.22.   B) 0.66.   C) 0.78.   D) 1.22.

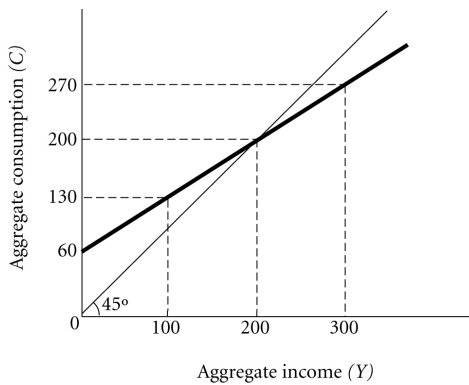*Refer to the information provided in Figure 8.3 below to answer the questions that follow.*

Figure 8.3

5) Refer to Figure 8.3. The equation for the aggregate consumption function is   5) _____
   A) $C = 140 + 0.5Y$.   B) $C = 80 + 0.6Y$.   C) $C = 60 + 0.7Y$.   D) $C = 60 + 0.4Y$.

6) Refer to Figure 8.3. The equation for the aggregate saving function is   6) _____
   A) $S = -60 + 0.3Y$.   B) $S = -80 + 0.4Y$
   C) $S = -140 + 0.5Y$.   D) $S = -200 + 0.6Y$.

7) Which of the following is an investment? 7) _____
    A) the purchase of a share of stock by a household
    B) the purchase of a new printing press by a business
    C) a leveraged buyout of one corporation by another
    D) the purchase of a corporate bond by a household

8) If unplanned business investment is $20 million and planned investment is $20 million, then actual 8) _____
    investment is
    A) -$20 million.   B) $20 million.   C) $40 million.   D) $200 million.

9) If Inventory investment is higher than firms planned, 9) _____
    A) actual investment is less than planned investment.
    B) actual investment must be negative.
    C) actual investment is greater than planned investment.
    D) actual and planned investment are equal.

10) The economy can be in equilibrium if, and only if, 10) _____
    A) planned investment is greater than actual investment.
    B) planned investment is zero.
    C) planned investment equals actual investment.
    D) actual investment is zero.

Refer to the information provided in Figure 8.11 below to answer the questions that follow.
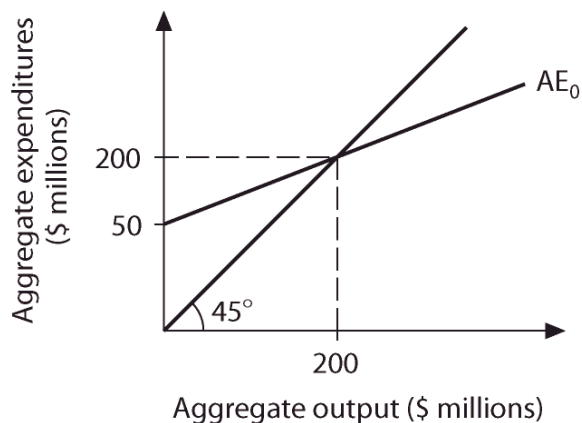

Figure 8.11

11) Refer to Figure 8.11. The equation for the aggregate expenditure function AE_0 is 11) _____
    A) $AE_0 = 50 + 0.4Y$.   B) $AE_0 = 80 + 0.6Y$.
    C) $AE_0 = 50 + 0.75Y$.   D) $AE_0 = 50 + 0.6Y$.

12) Refer to Figure 8.11. If *MPC* increases to 0.8, equilibrium aggregate output 12) _____
    A) increases to $250 million.
    B) increases to $400 million.
    C) remains at $200 million.
    D) cannot be determined from the given information.

13) Fiscal policy refers to

    A) the government's ability to regulate a firm's behavior in the financial markets.

    B) the spending and taxing policies used by the government to influence the economy.

    C) the techniques used by a business firm to reduce its tax liability.

    D) the behavior of the nation's central bank, the Federal Reserve, regarding the nation's money supply.

13) _____

14) Which of the following is INCORRECT regarding tax revenues?

    A) they are a revenue source in the government's budget

    B) they increase during recessions

    C) they change with changes in the tax rate

    D) they increase during economic expansions

14) _____

Refer to the information provided in Table 9.3 below to answer the questions that follow.

Table 9.3
All Numbers are in $ Million

Output (Income)	Net Taxes	Consumption	Savings	Planned Investment	Planned Government Spending
1,000	200	__	120	200	200
1,100	200	760	140	200	200
1,200	200	840	__	200	200
1,300	200	__	180	200	200
1,400	200	1,000	200	200	200
1,500	200	1,080	220	200	200
1,600	200	1,160	__	200	200

15) Refer to Table 9.3. The *MPC* in this economy is _____ and the *MPS* is _____.

    A) 0.7; 0.5   B) 0.5; 0.5   C) 0.9; 0.1   D) 0.8; 0.2

15) _____

1) B
2) B
3) A
4) C
5) C
6) A
7) B
8) C
9) C
10) C
11) C
12) A
13) B
14) B
15) D