TEST 2

Name: _____   R: _____   ID: _____

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

1) If Inventory investment is higher than firms planned,   1) _____
    A) actual investment is greater than planned investment.
    B) actual investment is less than planned investment.
    C) actual and planned investment are equal.
    D) actual investment must be negative.

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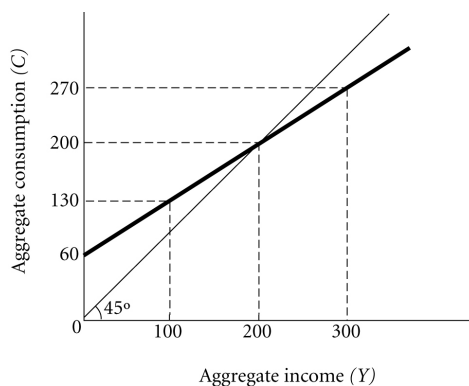

Figure 8.3

2) Refer to Figure 8.3. The equation for the aggregate consumption function is   2) _____
    A) $C = 60 + 0.7Y$.   B) $C = 140 + 0.5Y$.   C) $C = 80 + 0.6Y$.   D) $C = 60 + 0.4Y$.

3) Refer to Figure 8.3. The equation for the aggregate saving function is   3) _____
    A) $S = -140 + 0.5Y$.   B) $S = -80 + 0.4Y$
    C) $S = -60 + 0.3Y$.   D) $S = -200 + 0.6Y$.

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

4) Refer to Table 7.3. If 2010 is the base year, the inflation rate between 2010 and 2011 is   4) _____
    A) 3.9%.   B) 6.1%.   C) 7.4%.   D) 10.2%.

5) Refer to Table 7.3. The lowest inflation rate is between the years   5) _____
    A) 2009 and 2010.
    B) 2010 and 2011.
    C) 2011 and 2012.
    D) cannot be determined from the given information

6) If the MPS is 0.22, the MPC is   6) _____
    A) -0.22.   B) 0.66.   C) 0.78.   D) 1.22.

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

8) Fiscal policy refers to   8) _____
    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.

9) If unplanned business investment is $20 million and planned investment is $20 million, then actual   9) _____
investment is
    A) -$20 million.   B) $20 million.   C) $40 million.   D) $200 million.

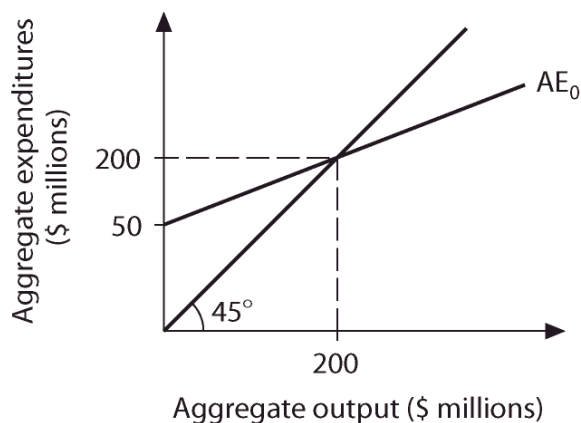*Refer to the information provided in Figure 8.11 below to answer the questions that follow.*

Figure 8.11

10) Refer to Figure 8.11. The equation for the aggregate expenditure function AE_0 is   10) _____
    A) $AE_0 = 50 + 0.4Y$.   B) $AE_0 = 50 + 0.75Y$.
    C) $AE_0 = 80 + 0.6Y$.   D) $AE_0 = 50 + 0.6Y$.

11) Refer to Figure 8.11. If *MPC* increases to 0.8, equilibrium aggregate output   11) _____

    A) increases to $400 million.

    B) remains at $200 million.

    C) increases to $250 million.

    D) cannot be determined from the given information.

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

12) Refer to Table 9.3. The *MPC* in this economy is _____ and the *MPS* is _____.   12) _____

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

13) Which of the following is INCORRECT regarding tax revenues?   13) _____

    A) they increase during recessions

    B) they change with changes in the tax rate

    C) they increase during economic expansions

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

14) If you save $80 when you experience a $400 rise in your income,   14) _____

    A) your *MPC* is 0.85.   B) your *MPS* is 0.25.

    C) your *MPS* is 0.40.   D) your *MPC* is 0.80.

15) The economy can be in equilibrium if, and only if,   15) _____
    A) actual investment is zero.
    B) planned investment is greater than actual investment.
    C) planned investment is zero.
    D) planned investment equals actual investment.

16-(10 points) The government's budget surplus in Macroland has risen consistently over the past five years. Two government policy makers disagree as to why this has happened. One argues that a rising budget surplus indicates a growing economy; the other argues that it shows that the government is using contractionary fiscal policy. Can you determine which policy maker is correct? If not, why not? (Within 5 sentences)

17-(10 points) Fiscal policy that "decrease aggregate demand" called contractionary fiscal policy normaly takes in three forms:

1-

2-

3-

18- (10 points) Please write to "rounds of increasing in aggregate output"

(1)_____ (2) _____ (Increase/Decrease) (3)_____ induces to (4)_____

Over

4

D)

19-(10 points) How will planned investment spending change as the following events occur?(Within 3 sentences)

   a. The interest rate falls as a result of Federal reserve policy.

   b. Baby boomers begin to retire in large numbers and reduce their savings, resulting in higher interest rates.

20- (10 points) The accompanying table shows gross domestic product (GDP), disposable income
   (YD), consumer spending (C), and planned investment spending (I Planned) in an economy.
   Assume there is no government or foreign sector in this economy.

a.Complete the table by calculating planned aggregate spending (AE Planned) and unplanned inventory investment (I Unplanned).

GDP	YD	C	I(P)	AE(P)	I(UP)
	(billions of dollars)"				
"$0"	"$0"	"$100"	"$300"	"?"	"?"
"400"	"400"	"400"	"300"	"?"	"?"
"800"	"800"	"700"	"300"	"?"	"?"
"1,200"	"1,200"	"1,000"	"300"	"?"	"?"
"1,600"	"1,600"	"1,300"	"300"	"?"	"?"
"2,000"	"2,000"	"1,600"	"300"	"?"	"?"
"2,400"	"2,400"	"1,900"	"300"	"?"	"?"
"2,800"	"2,800"	"2,200"	"300"	"?"	"?"
"3,200"	"3,200"	"2,500"	"300"	"?"	"?"

b. What is the aggregate consumption function?

D)

c. What is Y*, income –expenditure equilibrium GDP?

d. What is the value of the multiplier?

e. If planned investment spending falls to $200 billion, what will be the new Y*?

Bonus question (10 points)

Who was awarded the Nobel Prize in Economics at 2013?

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