Instructions:

This is the on-line Multiple Choice Quiz for Chapter 10. Please do the following:

Step 1: Go to the special codes section on your score sheet

- Write your section number (1, or 4, or 5) under the letter K. Also fill out the appropriate bubble corresponding to your section number in column K.
- Go to the columns O and P. Enter for this chapter, 1 in the O column, and 0 in the P column. Also fill out the appropriate bubbles below in columns O and P.

Step 2: Enter your university identification number, using numbers and corresponding bubbles.

Step 3: Enter your name, using letters and corresponding bubbles.

Step 4: Answer all 35 questions.

Step 5: Check the important dates link on the class home page for the availability and closing dates for the successive on-line multiple choice quizzes.

Step 6: Hand in your score sheets in class, to your TA’s or to myself, in class, or outside my office, Heady Hall 281, no later than the posted closing date and hour (5 p.m.)

We will use the following grading scale:

A = 35, 34, 33, 32, 31, 30
B = 29, 28, 27, 26, 25, 24
C = 23, 22, 21, 20, 19, 18
D = 17, 16, 15, 14, 13, 12
F = less than 12

Note: All MC quizzes will be discussed in detail in class for each section (1, 4, or 5) prior to the posted Friday 5 p.m. closing date and hour. Bring your printed test and score sheet to that class session for that purpose.
MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

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

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

3) The consumption function relates the consumption expenditure decisions of households to
   A) the level of disposable income. 
   B) saving decisions of households. 
   C) investment decisions of firms. 
   D) the nominal interest rate.

4) The slope of the consumption function is
   A) less than 1. 
   B) 1. 
   C) negative. 
   D) greater than 1.

5) The slope of the consumption function is
   A) equal to the slope of the 45-degree line.
   B) equal to zero.
   C) less than the slope of the 45-degree line but not equal to zero.
   D) greater than the slope of the 45-degree line.
6) In the above figure, consumption and disposable income are equal at
   A) a saving level of $100 billion and disposable income level of $400 billion.
   B) any point along the consumption function.
   C) a disposable income level of $0.
   D) a disposable income level of $200 billion.

7) Dissaving occurs when a household
   A) saves more than it spends.
   B) spends more than it saves.
   C) spends less than it receives in disposable income.
   D) consumes more than it receives in disposable income.

8) What is the marginal propensity to consume?
   A) One minus the fraction of total disposable income that is saved.
   B) The percentage of a given income that is consumed.
   C) The ratio of the change in consumption expenditure to the change in disposable income.
   D) The percentage of interest income consumed.

9) The marginal propensity to consume is
   A) the change in consumption expenditure divided by total saving.
   B) the change in consumption expenditure divided by the change in disposable income.
   C) the change in consumption expenditure divided by total disposable income.
   D) total consumption expenditure divided by the change in disposable income.

10) If the marginal propensity to consume is 0.8, every $10 increase in disposable income increases
    A) saving by $0.20.                     B) consumption expenditure by $0.80.
    C) consumption expenditure by $18.00.   D) consumption expenditure by $8.00.
11) The marginal propensity to save (MPS) is
   A) the decrease in saving that is caused by inflation.
   B) the decrease in saving per dollar increase in consumption expenditure.
   C) the increase in saving per dollar increase in disposable income.
   D) total saving divided by total consumption expenditure.

<table>
<thead>
<tr>
<th>Disposable income (dollars)</th>
<th>Consumption expenditure (dollars)</th>
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<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>500</td>
<td>525</td>
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<tr>
<td>600</td>
<td>600</td>
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</tbody>
</table>

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

13) For a household, the marginal propensity to save plus the marginal propensity to consume
   A) equals 0.
   B) equals a number that is larger the larger the household's disposable income.
   C) equals 1.
   D) equals a number that is smaller the larger the household's disposable income.

14) The curve that relates the level of total planned expenditure to the level of real GDP is the
   A) dis savings function.                        B) equilibrium GDP curve.
   C) aggregate expenditure curve.               D) consumption function.

15) The slope of the aggregate expenditure curve equals the change in
   A) autonomous expenditure divided by the change in real GDP.
   B) real GDP divided by the change in planned expenditure.
   C) government expenditure divided by the change in real GDP.
   D) planned expenditure divided by the change in real GDP.

16) The slope of the aggregate expenditure curve is
   A) greater than 0 and less than 1.
   B) 1.
   C) 0.
   D) greater than 1.

17) As a nation's GDP increases, that nation's
   A) imports increase.                        B) autonomous consumption increases.
   C) autonomous consumption decreases.        D) exports increase.
18) A decrease in autonomous consumption will
A) shift the consumption function upward.
B) change the slope of the consumption function.
C) decrease the marginal propensity to save.
D) shift the aggregate expenditure function downward.

19) Equilibrium expenditure occurs where the aggregate expenditure curve crosses the
A) consumption function. B) horizontal axis.
C) vertical axis. D) 45-degree line.

![Graph](image)

20) In the above figure, at the equilibrium, induced expenditure is
A) $100 billion. B) $200 billion.
C) some amount not given in the above answers. D) $300 billion.

21) In the above figure, autonomous expenditure is
A) $200 billion. B) $100 billion.
C) $300 billion. D) some amount not given in the above answers.
22) In the above figure, equilibrium expenditure is
   A) some amount that cannot be determined without more information.
   B) less than $10 trillion.
   C) more than $10 trillion.
   D) $10 trillion.

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

24) 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 less than the change in aggregate expenditure.
   C) has no necessary relationship to the size of the change in aggregate expenditure.
   D) is equal to the change in aggregate expenditure.

25) Because of the multiplier, a one-time change in expenditure will
   A) expand income by an infinite amount.
   B) generate more additional income than the initial change in expenditure.
   C) decrease saving and investment activity and future income.
   D) have little secondary effect on income.

26) If there are no income taxes or imports, the multiplier equals
   A) $1/(1 - marginal propensity to import).
   B) $1/(1 - marginal propensity to invest).
   C) $1/(1 - marginal propensity to save).
   D) $1/(1 - marginal propensity to consume).
27) In the above figure, autonomous expenditure along \( AE_2 \) equals
   A) $4 trillion.  
   B) $2 trillion.  
   C) $8 trillion.  
   D) an amount not given in the above answers.

28) In the above figure, the multiplier is
   A) 3.0.  
   B) 2.0.  
   C) 1.5.  
   D) 2.5.

29) The presence of income taxes and imports cause the slope of the aggregate expenditure curve to be
   A) flatter than it would be without income taxes and exports.
   B) steeper than it would be without income taxes and exports.
   C) the same as 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.

30) 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) II only  
   B) I, II, and III  
   C) I and II only  
   D) I only

31) Business cycle turning points are
   A) unaffected by and unrelated to the multiplier.
   B) brought about by changes in autonomous expenditures that are then subject to the multiplier effect.
   C) easy to predict.
   D) None of the above are correct.
Consumption expenditure: \( C = 8 + 0.7Y \)
Investment: \( I = 5 \)
Government purchases: \( G = 7 \)
Exports: \( X = 10 \)
Imports: \( M = 0.2Y \)

32) The equations above describe the economy of La La Land. What is the equation for the aggregate expenditure curve?
A) \( AE = 30 + 0.5Y \).
B) \( AE = 13 + 0.5Y \).
C) \( AE = 30 - 0.5Y \).
D) \( AE = 30 + 0.9Y \).

33) The equations above describe the economy of La La Land. What is the equilibrium level of expenditure?
A) 30
B) 29
C) 60
D) 90

34) The equations above describe the economy of La La Land. What is the equilibrium level of consumption expenditure?
A) 60
B) 40
C) 50
D) None of the above answers are correct.

Consumption function: \( C = 600 + 0.8Y \)
Aggregate expenditure function: \( AE = 1000 + 0.5Y \)

35) Based on the two equations above, equilibrium expenditure is
A) 1,000.
B) 3,000.
C) 2,000.
D) 1,600.