Sample Questions

Multiple Choice
Identify the letter of the choice that best completes the statement or answers the question.

Exhibit V-2

\[
\text{Assume the following scenario: (1) the economy is at } \ Y = 700 \text{ billion; (2) autonomous consumption is } 560 \text{ billion and } \text{MPC} = 0.8; \text{ and (3) the producers in the economy have decided that of the } 700 \text{ billion of goods they produced, } 100 \text{ billion is intended for investment.}
\]

1. In Exhibit V-2, consumption spending is
a. $100 billion  
b. $560 billion  
c. $620 billion  
d. $640 billion  
e. $700 billion  

2. In Exhibit V-2, consumers save
a. -$100 billion  
b. nothing  
c. $80 billion  
d. $100 billion  
e. $140 billion  

3. In Exhibit V-2, the value of consumption goods produced is
a. $560 billion  
b. $600 billion  
c. $620 billion  
d. $660 billion  
e. $700 billion  

4. In Exhibit V-2, actual investment is
a. $80 billion  
b. $120 billion  
c. $340 billion  
d. $440 billion  
e. $700 billion  

5. In Exhibit V-2, actual investment
a. and intended investment are equal  
b. is $20 billion greater than intended investment  
c. is $60 greater than intended investment  
d. is $20 billion less than intended investment  
e. is $60 billion less than intended investment
6. In Exhibit V-2,
   a. the retail stores discover that the inventories they wanted to hold as investment end up sold as consumption goods
   b. $20 billion of consumption goods are produced but remain unsold
   c. $40 billion of consumption goods are produced but remain unsold
   d. $100 billion of consumption goods are produced but remain unsold
   e. $120 billion of consumption goods are produced but remain unsold

7. In Exhibit V-4, the consumption curve, C, is a straight line because
   a. the economy is always in equilibrium
   b. the aggregate expenditure curve is horizontal
   c. the marginal propensity to consume is constant
   d. consumption expenditures are constant
   e. consumption expenditures are inversely related to investment expenditures
8. In Exhibit V-4, the aggregate expenditure curve, AE, differs from the consumption curve by
   a. $60 billion, which represents producers' investment spending
   b. $100 billion, which represents producers' investment spending
   c. $60 billion, which represents consumption spending
   d. $120 billion, which represents consumer saving
   e. $200 billion, which represents national income

9. In Exhibit V-4, the C + S curve
   a. represents the economy's total income
   b. intersects the consumption curve at equilibrium national income
   c. is identical to the C + Ii curve at all levels of national income
   d. intersects the aggregate expenditure curve where Y = $700 billion
   e. shows the quantity of aggregate expenditure at different levels of national income

10. If in 2000, $100 billion of consumption goods in Canada are produced but remain unsold and Canadian retail stores discover they have more inventory than they want, those $100 billion of consumption goods, by default, become
   a. consumption goods in the form of next year's inventories
   b. intended investment in the form of next year's inventories
   c. investment goods in the form of next year's inventories
   d. consumption goods in the form of unwanted inventories
   e. investment goods in the form of unwanted inventories

11. Suppose equilibrium national income is currently at $800 billion and intended investment is $100 billion. If an increase in the interest rate reduces intended investment from $100 billion to $75 billion, and the MPC is 0.8, the new level of equilibrium national income will be
   a. $500 billion
   b. $600 billion
   c. $675 billion
   d. $775 billion
   e. $800 billion

12. If the income multiplier is equal to 5, then a $1 initial increase the country's exports will lead to a
   a. 5 percent decrease in national income
   b. 5 percent increase in national income
   c. $5 decrease in national income
   d. $5 increase in national income
   e. 0.05 percent increase in national income

13. Last month 5,000 people decided to quit their jobs in order to seek better employment opportunities. These people are
   a. structurally unemployed
   b. frictionally unemployed
   c. discouraged workers
   d. cyclically unemployed
   e. underemployed workers

14. Assume that full-employment national income is \( Y = $1,200 \) billion, the current equilibrium national income is \( Y = $1,600 \) billion, and the MPC = 0.8. In order to bring the economy to a full-employment national income,
   a. the recessionary gap can be closed by increasing aggregate expenditure by $80 billion
   b. the inflationary gap can be closed by cutting aggregate expenditure by $80 billion
   c. nothing is needed to bring the economy into full employment equilibrium
   d. the recessionary gap can be closed by increasing aggregate expenditure by $400 billion
   e. the inflationary gap can be closed by cutting aggregate expenditure by $400 billion
15. When tax revenues exceed government spending for any year, there is for that year
   a. a budget deficit
   b. a budget surplus
   c. a balanced budget
   d. a positive tax multiplier
   e. inflation

16. An economy that is in equilibrium and operating below its full-employment capacity must be experiencing
   a(n)
   a. inflationary period
   b. recessionary gap
   c. a surplus budget outcome
   d. market correction
   e. inflationary gap

17. Who among the following benefits from inflation?
   a. Patrick Roy who borrowed $10,000 from a bank to pay the downpayment on a house he bought in Denver
   b. The Denver National Bank who provided Patrick Roy with the $10,000 to make the downpayment
   c. Jerry Swanson, a landlord who holds a 5-year lease on an apartment rented to students off campus at the University of Arizona
   d. Peter Schran who loaned Larry Neal $500 without charging Larry any interest
   e. Ian McDonald who is retired and lives on his $700 per week pension

18. Assume that an economy's income multiplier is 4. If this economy is in equilibrium at $2,000 billion, then which one of the following actions will bring it to a full employment equilibrium without inflation of $1,500 billion?
   a. $500 billion spending cut
   b. $500 billion spending increase
   c. $125 billion spending cut
   d. $125 billion spending increase
   e. $2,000 billion spending cut

19. Imagine that the U.S. economy is in equilibrium at full employment without inflation where national income is at $6,700 billion. The MPC = 0.8. If massive flooding along the Mississippi River leads Congress to approve a spending package of $10 billion to aid flood victims, the government must also take which of the following actions to keep the economy in equilibrium at full employment without inflation?
   a. increase taxes by $10 billion
   b. decrease taxes by $10 billion
   c. increase taxes by more than $10 billion
   d. decrease taxes by more than $10 billion
   e. increase taxes by less than $10 billion

20. A $100 increase in both government expenditure and taxes will
   a. cancel each other out so that the equilibrium level of output will remain unchanged
   b. lead to a $100 decrease in the equilibrium level of output
   c. lead to a $100 increase in the equilibrium level of output
   d. lead to a greater than $100 increase in the equilibrium level of output
   e. lead to a less than $100 increase in the equilibrium level of output
Sample Questions
Answer Section

MULTIPLE CHOICE

1. C
2. C
3. B
4. A
5. D
6. A
7. C
8. B
9. A
10. E
11. C
12. D
13. B
14. B
15. B
16. B
17. A
18. C
19. C
20. C