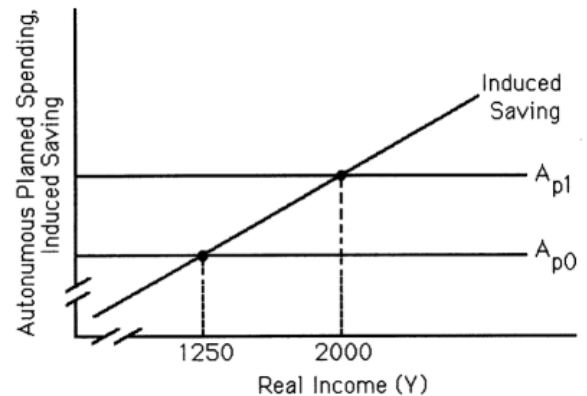


Assignment 4

Select the best answer for the following questions and record it on the response sheet.

- 1) In a closed economy without taxes, the slope of the planned expenditure line is
- A) autonomous consumption.
 - B) the marginal propensity to save.
 - C) autonomous planned spending.
 - D) the marginal propensity to consume.
 - E) none of the above.

- 2) Consider the accompanying figure. If $A_{p0} = 500$ and $A_{p1} = 800$, we can correctly infer that the investment multiplier in a closed economy without taxes is
- A) 2.5.
 - B) 0.6.
 - C) 0.4.
 - D) 1.67.
 - E) 1.5.



- 3) On a diagram of the consumption function and the 45-degree line, saving at each level of disposable income is the vertical distance
- A) from the horizontal axis to the intersection point of the consumption line and the 45-degree line.
 - B) from the horizontal axis to the 45-degree line.
 - C) between the consumption and the 45-degree lines.
 - D) from the horizontal axis to where the consumption line intersects the vertical axis.
 - E) None of the above.
- 4) In the simple Keynesian model of the determination of equilibrium income that we have studied, interest rates are assumed to be
- A) exogenous and to gradually change.
 - B) endogenous and to gradually change.
 - C) exogenous and to remain constant.
 - D) endogenous and to remain constant.
- 5) If Y is income, E is actual expenditure, E_p is planned expenditure, and I_u is unintended inventory investment, then
- A) $Y = E + I_u$.
 - B) $I_u = Y - E$.
 - C) $Y = E_p + I_u$.
 - D) $Y = E + I$.
 - D) None of the above.

- 6) The multiplier measures
- A) the number of steps it takes to move from one equilibrium to another.
 - B) the rise in saving resulting from a rise in income.
 - C) the marginal propensity to invest.
 - D) the increase in equilibrium GDP resulting from a one dollar rise in planned autonomous expenditures.
 - E) the increase in equilibrium GDP resulting from a one dollar rise in induced or autonomous expenditures.
- 7) An increase in the marginal propensity to import will
- A) raise imports and raise equilibrium income.
 - B) lower imports and raise equilibrium income.
 - C) lower the multiplier and reduce equilibrium income.
 - D) raise the multiplier and reduce equilibrium income.
- 8) If A_p is total autonomous planned spending, c is the marginal propensity to consume, s is the marginal propensity to save, and Y is the equilibrium income level, then induced saving is
- A) A_p/Y .
 - B) $Y = A_p/s$.
 - C) sY .
 - D) cA_p .
 - E) None of the above.

Answer questions 9 and 10 based on the following scenario. Assume that all taxes in the economy are autonomous and the values for planned investment, government expenditures, and autonomous taxes are the following: $I_p = 100$; $G = 100$; $T = 50$ and the consumption function is $C = 50 + 0.5 Y_d$.

- 9) Based on the scenario above, what is the level of unintended inventory investment when income is 850?
- A) -175
 - B) 175
 - C) -200
 - D) 200
 - E) None of the above.
- 10) Based on the scenario above, what is the equilibrium level of GDP?
- A) 300
 - B) 400
 - C) 450
 - D) 525
 - E) None of the above.
- 11) Which variable is assumed to remain exogenous in all models that we have studied thus far?
- A) the money demand
 - B) the interest rate
 - C) the price level
 - D) the equilibrium GDP
 - E) induced consumption

- 12) In the models we have studied thus far, the supply of money is regarded as a policy _____ that is under _____ control by the Federal Reserve.
- A) goal, perfect
 - B) goal, imperfect
 - C) instrument, perfect
 - D) instrument, imperfect
 - E) goal, constitutional
- 13) Events that shift the A_p schedule to the left also cause _____ the IS curve.
- A) movements downward along
 - B) movements upward along
 - C) parallel rightward shifts of
 - D) parallel leftward shifts of
 - E) no change in
- 14) Suppose the demand for money becomes less sensitive to changes in the interest rate. In moving along an LM curve, an increase in income must be accompanied by a _____ change in the interest rate than before, meaning that the LM curve has become _____.
- A) greater, steeper
 - B) greater, flatter
 - C) smaller, steeper
 - D) smaller, flatter
 - E) None of the above.
- 15) As income and production rise, the demand for real money balances will _____ and the equilibrium interest rate will _____.
- A) fall; fall
 - B) rise; rise
 - C) rise; fall
 - D) fall; rise
 - E) None of the above.
- 16) In a country without foreign trade and income taxes, if the government decreases autonomous spending and autonomous taxes by 50 then total expenditures and output will
- A) increase by 50 if the MPC is 1.
 - B) decrease by 50 for any value of the MPS greater than zero.
 - C) decrease by 100 if the MPS is 0.5.
 - D) increase by 200 if the MPS is 0.25.
 - E) increase by 50 for any value of the MPS greater than zero.
- 17) In the consumption function, suppose $a = 60$, $c = 0.75$, $Y = 3000$, and $T = 800$. Then the consumption expenditure is
- A) 2910.
 - B) 2245.
 - C) 1710.
 - D) 1590.
 - E) 1510.

- 18) The 9/11 attacks, by themselves, had the most likely effect of shifting the
- A) IS curve to the right.
 - B) IS curve to the left.
 - C) LM curve to the right.
 - D) LM curve to the left.
 - E) None of the above.
- 19) In the saving function, autonomous saving is
- A) $-a + (1 - c)(Y - T)$
 - B) $(1 - c)Y$
 - C) $-a - (1 - c)T$
 - D) $-(Y - T)$
 - E) None of the above.
- 20) The money supply is controlled by the
- A) New York Stock Exchange.
 - B) Federal Reserve System.
 - C) Stock of gold in the economy.
 - D) President of the United States.
 - E) Congress of the United States.

Assignment 4 Response Sheet

Names _____

1 A B C D E

2 A B C D E

3 A B C D E

4 A B C D E

5 A B C D E

11 A B C D E

12 A B C D E

13 A B C D E

14 A B C D E

15 A B C D E

6 A B C D E

7 A B C D E

8 A B C D E

9 A B C D E

10 A B C D E

16 A B C D E

17 A B C D E

18 A B C D E

19 A B C D E

20 A B C D E