Quick Quiz - Chapter 10: MPC, APC, MPS, APS

1. The most important determinant of consumption and saving is the:

- A. level of bank credit.
- B. level of income.
- C. interest rate.
- D. price level.
- 2. The MPC can be defined as that fraction of a:
- A. change in income that is not spent.
- B. change in income that is spent.
- C. given total income that is not consumed.
- D. given total income that is consumed.
- 3. The APC can be defined as the fraction of a:
- A. change in income that is not spent.
- B. change in income that is spent.
- C. specific level of total income that is not consumed.
- D. specific level of total income that is consumed.

4. Dissaving means:

- A. the same thing as disinvesting.
- B. that households are spending more than their current incomes.
- C. that saving and investment are equal.
- D. that disposable income is less than zero.

Disposable Income Consumption

\$200	\$205
225	225
250	245
275	265
300	285

5. Refer to the above data. The marginal propensity to consume is:

- A. .25.
- B. .75.
- C. .20.
- D. .80.

6. Refer to the above data. If disposable income was \$325, we would expect consumption to be:

- A. \$315.
- B. \$305.
- C. \$20.
- D. \$290.



- 7. Refer to the above diagram. The marginal propensity to consume is:
- A. .4.
- B. .6.
- C. .5.
- D. .8.

Quick Quiz: The Multiplier Effect

1. If the MPC is .70 and investment increases by \$3 billion, the equilibrium GDP will:

A. increase by \$10 billion.

B. increase by \$2.10 billion.

C. decrease by \$4.29 billion.

D. increase by \$4.29 billion.

2. If the MPC is .6, the multiplier will be:

A. 4.0.

B. 6.0.

C. 2.5.

D. 1.67.

3. The multiplier is:

- A. 1/APS.
- B. 1/APC.

C. 1/MPC.

D. 1/MPS.

4. The multiplier effect indicates that:

A. a decline in the interest rate will cause a proportionately larger increase in investment.

B. a change in spending will change aggregate income by a larger amount.

C. a change in spending will increase aggregate income by the same amount.

D. an increase in total income will generate a larger change in aggregate expenditures.

5. If a \$500 billion increase in investment spending increases income by \$500 billion in the first round of the multiplier process and by \$450 in the second round, income will eventually increase by:

- A. \$2500 billion.
- B. \$3000 billion.
- C. \$4000 billion.

D. \$5000 billion.

6. The actual multiplier effect in the U.S. economy is less than the multiplier effect in the text examples because:

A. the real-world MPS is larger than the MPS in the examples.

B. in addition to saving, households use some of any increase in income to buy imported goods and to pay additional taxes.

C. the gap between the nominal interest rate and the real interest rate widens as the economy expands or contracts.

D. the MPC in the United States is greater than 1.

Quick Quiz: Fiscal Policy

1. Discretionary fiscal policy refers to:

A. any change in government spending or taxes that destabilizes the economy.

B. the authority that the President has to change personal income tax rates.

C. changes in taxes and government expenditures made by Congress to stabilize the economy.

D. the changes in taxes and transfers that occur as GDP changes.

2. Countercyclical discretionary fiscal policy calls for:

A. surpluses during recessions and deficits during periods of demand-pull inflation.

B. deficits during recessions and surpluses during periods of demand-pull inflation.

C. surpluses during both recessions and periods of demand-pull inflation.

D. deficits during both recessions and periods of demand-pull inflation

3. Contractionary fiscal policy is so named because it:

A. involves a contraction of the nation's money supply.

B. necessarily reduces the size of government.

C. is aimed at reducing aggregate demand and thus achieving price stability.

D. is expressly designed to contract real GDP.

4. An appropriate fiscal policy for a severe recession is:

A. a decrease in government spending.

B. a decrease in tax rates.

C. appreciation of the dollar.

D. an increase in interest rates.

5. A contractionary fiscal policy is shown as a:

A. rightward shift in the economy's aggregate demand curve.

B. rightward shift in the economy's aggregate supply curve.

C. movement along an existing aggregate demand curve.

D. leftward shift in the economy's aggregate demand curve.

6. If the MPS in an economy is .1, government could shift the aggregate demand curve rightward by \$40 billion by:

A. increasing government spending by \$4 billion.

B. increasing government spending by \$40 billion.

C. decreasing taxes by \$4 billion.

D. increasing taxes by \$4 billion.

7. Which of the following represents the most expansionary fiscal policy?

A. a \$10 billion tax cut

B. a \$10 billion increase in government spending

C. a \$10 billion tax increase

D. a \$10 billion decrease in government spending

8. A specific reduction in government spending will dampen demand-pull inflation by a greater amount, the:

A. smaller is the economy's MPC.

B. flatter is the economy's aggregate supply curve.

C. smaller is the economy's MPS.

D. less the economy's built-in stability.

9. Suppose the price level is fixed (i.e. no inflation), the MPC is .8, and the GDP gap is a negative \$100 billion (equilibrium GDP is \$100 billion less than the full employment level). To achieve full-employment output (exactly), government should:

A. increase government expenditures by \$100 billion.

B. increase government expenditures by \$20 billion.

C. reduce taxes by \$20 billion.

D. reduce taxes by \$100 billion.

10. Suppose the price level is NOT fixed (i.e. there IS inflation), the MPC is .8, and the GDP gap is a negative \$100 billion (equilibrium GDP is \$100 billion less than the full employment level). To achieve full-employment output, government should:

A. do nothing.

B. increase government expenditures by \$20 billion.

C. increase government expenditures by more than \$20 billion

C. reduce taxes by \$20 billion.

D. reduce taxes by \$100 billion.

Gross Domestic	
Product (GDP)	Consumption (C)
\$0	\$40
100	120
200	200
300	280
400	360

11. Refer to the above data. If a lump-sum tax (the same tax amount at each level of GDP) of \$40 is now imposed in this economy, the consumption schedule will be:

	GDP	С
	\$0	\$8
	100	88
	200	168
	300	248
A.	400	320

	GDP	С
	\$0	\$0
	100	80
	200	160
	300	240
B.	400	320

	GDP	С
	\$0	\$10
	100	90
	200	170
	300	250
C.	400	310

	GDP	С
	\$0	\$0
	100	60
	200	120
	300	180
D.	400	240

Quick Quiz: Fiscal Policy - Other Issues

1. The standardized budget refers to:

A. the inflationary impact that the automatic stabilizers have in a full-employment economy.

B. that portion of a full-employment GDP that is not consumed in the year it is produced.

C. the size of the Federal government's budgetary surplus or deficit when the economy is operating at full employment.

D. the number of workers who are underemployed when the level of unemployment is 4 to 5 percent.

2. If the economy has a standardized budget surplus, this means that:

A. the public sector is exerting an expansionary impact on the economy.

B. tax revenues would exceed government expenditures if full employment were achieved.

C. the actual budget is necessarily also in surplus.

D. the economy is actually operating at full employment.

3. Suppose the government purposely changes the economy's standardized budget from a deficit of 3 percent of real GDP to a surplus of 1 percent of real GDP. The government is engaging in a(n):

A. expansionary fiscal policy.

B. contractionary fiscal policy.

C. neutral fiscal policy.

D. high-interest rate policy.

(1) The composite index of leading indicators turns downward for three consecutive months, suggesting the possibility of a recession;

(2) Economists reach agreement that the economy is moving into a recession;

(3) A tax cut is proposed in Congress;

(4) The tax cut is passed by Congress and signed by the President;

(5) Consumption spending begins to rise, aggregate demand increases, and the economy begins to recover.

4. Refer to the above information. The operational lag of fiscal policy is reflected in event(s):

A. 1 and 2.

B. 2 and 3.

C. 3 and 4.

D. 5.

5. Which of the following best describes the idea of a political business cycle?

A. Politicians are more willing to cut taxes and increase government spending than they are to do the reverse.

B. Fiscal policy will result in alternating budget deficits and surpluses.

C. Politicians will use fiscal policy to cause output, real incomes, and employment to be rising prior to elections.

D. Despite good intentions, various timing lags will cause fiscal policy to reinforce the business cycle.

6. Assume the government purposely incurs a budget deficit that is financed by borrowing. As a result, interest rates rise and the amount of private investment spending declines. This illustrates: A. the equation-of-exchange effect.

- B. the paradox of thrift.
- C. the crowding-out effect.

D. the wealth effect.

7. The crowding-out effect is:

A. strongest when the economy is at full employment.

B. strongest when the economy is in a deep recession.

C. weakest when there is demand-pull inflation.

D. equally strong, regardless of the state of the macroeconomy.

8. Which of the following fiscal policy actions is most likely to increase aggregate supply?

A. An increase in personal income tax rates.

B. A reduction in interest rates that encourages consumers to purchase more durable goods.

C. An increase in transfer payments to unemployed workers.

D. An increase in government spending on infrastructure that increases private sector productivity.

Quick Quiz: - The Public Deficits and Debt

1. The amount by which government expenditures exceed revenues during a particular year is the:

- A. public debt.
- B. budget deficit.
- C. full-employment.
- D. GDP gap.

2. Since 2002, the United States has had:

- A. large Federal budget surpluses.
- B. large Federal budget deficits.
- C. modest trade surpluses.
- D. a rising natural rate of unemployment.

3. The true size of Federal budget deficits may be understated because:

- A. a portion of government spending is public investment.
- B. inflation reduces the real value of the public debt.

C. Social Security surpluses are included as government tax revenues in measuring the budget deficit.

D. foreign holdings of the debt have recently increased.

4. The tax cut passed by Congress and the Bush administration in 2001 was motivated primarily by:

- A. the recession that began in March 2001.
- B. the terrorist attacks on September 11, 2001.
- C. the desire to distribute income and wealth more equally.
- D. projections that actual budget surpluses would rise to \$5 trillion by 2010.

5. The U.S. public debt:

- A. refers to the debts of all units of government-Federal, state, and local.
- B. consists of the total debt of U.S. households, businesses, and government.
- C. refers to the collective amount that U.S. citizens and businesses owe to foreigners.
- D. consists of the historical accumulation of all Federal government deficits less surpluses.
- 6. Which of the following is *not* a significant contributor to the U.S. public debt?
- A. war financing
- B. tax cuts and expenditure increases in the 1980s
- C. recessions
- D. demand-pull inflation
- 7. In 2007, the U.S. Federal debt held by the public was:
- A. held largely by foreign governments.
- B. about four times as large as the GDP.
- C. about twice as large as the GDP.
- D. about a third as large as the GDP.

8. What percentage of the public debt is held by foreign individuals and institutions?

- A. 50 percent
- B. 18 percent
- C. 42 percent
- D. 25 percent

9. To say that "the U.S. public debt is also a public credit" is to say that:

- A. only interest payments on the public debt are an economic burden.
- B. official figures understate the size of the public debt.
- C. the bulk of the public debt is owned by U.S. citizens and institutions.
- D. the public debt is equal to the land and buildings assets owned by the Federal government.

10. Payment of interest on the U.S. public debt:

- A. increases the current domestic standard of living in the United States.
- B. has no effect on the distribution of income.
- C. is thought to decrease income inequality.
- D. is thought to increase income inequality.

11. The most likely way the public debt burdens future generations, if at all, is by:

- A. reducing the current level of investment.
- B. causing future unemployment.

C. causing deflation.

D. reducing real interest rates.

12. The real burden of an increase in the public debt:

A. may be very small or conceivably zero when the economy is in a severe depression.

B. will be smaller when full employment exists than when the economy has large quantities of idle resources.

C. can be shifted to future generations if the debt is internally financed.

D. can best be measured by the dollar increase in the size of the debt.

13. Which of the following is not considered a legitimate concern of a large public debt?

- A. Bankruptcy of the Federal government
- B. Disincentives created by higher taxes
- C. Crowding-out of private investment
- D. Increased income inequality