Answers

1. Disposable income equals _____.

A) income minus saving
B) income minus both saving and taxes
C) consumption minus taxes
D) **the sum of consumption and saving**
E) none of these

2. Suppose the consumption equation is represented by the following: C = 250 + .75YD. The multiplier in this economy is _____.

$\frac{1}{1-0.75} = 4$

3. Variables depend on other variables in the model and are therefore explained within the model are called exogenous variables. A) True B) **False**

4. Equilibrium in the goods market requires that _____.

A) production equals income
B) **production equals demand**
C) consumption equals saving
D) consumption equals income
E) government spending equals taxes minus transfers

5. If $C = 250 + 0.8\,Y_D$, the marginal propensity to save is: 0.2 (since $MPS = 1 - MPC$).

6. If $C = 250 + 0.75\,Y_D$ and government spending rises by 100, equilibrium output rises by

$\frac{1}{1-0.75} \cdot 100 = 400$

7. Which of the following events will cause a reduction in equilibrium output?

A) an increase in the marginal propensity to save
B) an increase in taxes
C) a reduction in the marginal propensity to consume
D) **all of these**
E) none of these

8. If C = 2000 + .9YD, what increase in government spending must occur for equilibrium output to increase by 1000?

$\Delta Y = \frac{1}{1-0.9} \cdot \Delta G$

$1000 = 10 \cdot \Delta G$

$\Delta G = 100$

9. Autonomous spending in a closed economy equals which of the following

A) $c_0 + \bar{I} + G - c_1 T$ **This is the answer**
B) $C + I + G$
C) Z
D) $ZZ = Y$
E) $ZZZZ \cdots\cdots\cdots$