1. If disposable income is $3,000 and saving is $1,200, how much is the average propensity to consume?
   A) 0.4  
   B) 0.6  
   C) 1.2  
   D) 2.5

2. (Table) In the table, the marginal propensity to consume is ________ and the average propensity to consume ________.
<table>
<thead>
<tr>
<th>Income</th>
<th>Consumption Spending</th>
<th>Saving</th>
</tr>
</thead>
<tbody>
<tr>
<td>$30,000</td>
<td>$30,000</td>
<td>$0</td>
</tr>
<tr>
<td>40,000</td>
<td>35,000</td>
<td>5,000</td>
</tr>
<tr>
<td>50,000</td>
<td>40,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>
   A) 0.5; varies with the level of income  
   B) $5,000; is $5,000  
   C) $10,000; is $35,000  
   D) 2; varies with the level of income

3. If income is $50,000, consumption is $47,500, and saving is $2,500, then the marginal propensity to consume is:
   A) 0.95.  
   B) 0.50.  
   C) 0.05.  
   D) There is not enough information to answer this question.

Use the following to answer question 4:

<table>
<thead>
<tr>
<th>Disposable Income</th>
<th>Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,000</td>
<td>$1,200</td>
</tr>
<tr>
<td>$1,200</td>
<td>$1,300</td>
</tr>
<tr>
<td>$1,400</td>
<td>$1,400</td>
</tr>
<tr>
<td>$1,600</td>
<td>$1,500</td>
</tr>
<tr>
<td>$1,800</td>
<td>$1,600</td>
</tr>
</tbody>
</table>
4. (Table) When disposable income is $1,200, what is the value of the average propensity to save?
   A) −0.5
   B) −1.5
   C) −1.083
   D) −0.083

5. If AE = $6,200 and Y = $5,800, businesses will produce:
   A) more, raising both employment and income.
   B) less, lowering both employment and income.
   C) more, raising employment and lowering income.
   D) less, lowering employment and raising income.
6. (Figure: Savings, Investment, and Aggregate Expenditures) Savings and investment are at equilibrium at point:
A)  b.
B)  c.
C)  d.
D)  e.
7. If $1,000 of additional spending occurs (from investment, say) and the marginal propensity to consume is 0.8, the total effect on the economy is an increase of _____ in income or output.
   A) $800
   B) $1,000
   C) $5,000
   D) $8,000

8. Suppose economists observe that an increase in government purchases of $10 billion raises aggregate expenditures by $30 billion. These economists would estimate that the marginal propensity to save is:
   A) 0.67.
   B) 0.33.
   C) 0.5.
   D) 20.

9. Assume that the MPC is 0.8. Full employment is considered to be at a GDP level of $500 billion. The current GDP is $400 billion. The government is committed to a balanced budget. To achieve full employment, the government should _______ taxes by ________ and increase government spending by ________.
   A) increase; $100 billion; $100 billion
   B) increase; $20 billion; $100 billion
   C) increase; $25 billion; $100 billion
   D) reduce; $100 billion; $100 billion

10. Suppose full employment real GDP is $12 trillion, current real GDP is $11 trillion, and the marginal propensity to consume is 0.8. The recessionary gap is:
    A) $1 trillion.
    B) $0.8 trillion.
    C) $0.2 trillion.
    D) $0.5 trillion.

11. Assume that the economy is at equilibrium at $10 trillion, with a marginal propensity to consume of 0.75. If exports rise by $0.5 trillion and imports increase by $0.7 trillion, equilibrium income will:
    A) not change.
    B) fall by $0.2 trillion.
    C) rise by $2 trillion.
    D) fall by $0.8 trillion.
12. In the nation of Economia, the economy is overheating and there is danger of inflation. The chief economist estimates that current income is $50 billion, while the optimal level is $40 billion. The multiplier is 4. If government wants to close the inflationary gap, it should reduce government spending by:
   A) $10 billion.
   B) $7.5 billion.
   C) $40 billion.
   D) $2.5 billion.

13. If the marginal propensity to consume is 0.6, the marginal propensity to save is 0.4, and government spending increases by $2 billion at the same time taxes rise by $2 billion, equilibrium income will:
   A) rise by $2 billion.
   B) not change.
   C) fall by $2 billion.
   D) rise by $5 billion.

14. The increase in aggregate spending needed to bring an economy to full employment is called:
   A) goal-oriented spending.
   B) the inflationary gap.
   C) gap closure spending.
   D) the recessionary gap.

15. The aggregate demand curve slopes _____ and has _____ on the vertical axis.
   A) downward; output
   B) downward; the price level
   C) upward; output
   D) upward; the price level

16. The Potbelly Pothole Company is undertaking some investment in its plant. Suppose interest rates fall and new technologies increase the return on its investment. What is likely to happen?
   A) The company's demand for investment will fall.
   B) There will be no change in the company's demand for investment.
   C) The company's demand for investment will first fall as interest rates fall and then rise as technology improves.
   D) The company's demand for investment will rise.
17. (Figure: Predicting Aggregate Demand Shifts) Which of the following would shift the aggregate demand curve from \( AD_1 \) to \( AD_2 \)?
   A) a tax increase
   B) a decrease in interest rates
   C) a decrease in government purchases
   D) a worsening of consumer expectations about the future

18. Which of the following events will NOT cause the aggregate demand curve to shift?
   A) Businesses are optimistic about the economy, investing heavily in new equipment.
   B) Consumers’ wealth drops because of a drop in the stock market.
   C) A rise in the aggregate price level causes a drop in exports.
   D) Governments increase spending on national security in the wake of terrorist attacks.

19. In the short run, the aggregate supply curve is ____ because input prices are _____.
   A) positively sloped; not completely flexible
   B) positively sloped; completely flexible
   C) vertical; not completely flexible
   D) vertical; completely flexible
20. If oil prices decrease, the short-run aggregate supply curve shifts _____ and output supplied will be _____.
   A) left; increased
   B) left; reduced
   C) right; increased
   D) right; reduced

21. Which is NOT consistent with the level of output in the long run?
   A) the natural rate of output
   B) full capacity output level
   C) high inflation
   D) the natural rate of unemployment

22. Which of the following would NOT cause a shift in the short-run aggregate supply curve?
   A) an increase in resource prices
   B) a decrease in the expected rate of inflation
   C) a major technological advance
   D) a decrease in real interest rates

23. A breakthrough in solar energy research that halves the cost of electricity will:
   A) have no effect on the aggregate supply curve.
   B) shift the aggregate supply curve to the right.
   C) shift the aggregate supply curve to the left.
   D) cause the aggregate supply curve to become vertical.
Figure: Determining SRAS Shifts

24. (Figure: Determining SRAS Shifts) If there is a decrease in input prices, the short-run aggregate supply curve will shift from SRAS$_0$ to _____ and the price level will become _____.
   A) SRAS$_1$; $P_0$
   B) SRAS$_1$; $P_1$
   C) SRAS$_2$; $P_1$
   D) SRAS$_2$; $P_2$

25. Suppose consumers spend more than usual. In the short run, output will ____; in the long run, output will ____ from its starting point.
   A) increase; remain unchanged
   B) increase; increase
   C) remain unchanged; decrease
   D) remain unchanged; increase
26. Short-run macroeconomic equilibrium occurs at the intersection of:
   A) aggregate demand and short-run aggregate supply.
   B) aggregate demand and long-run aggregate supply.
   C) aggregate demand, short-run aggregate supply, and long-run aggregate supply.
   D) short-run aggregate supply and long-run aggregate supply.

27. (Figure: Understanding Aggregate Graphs)

This economy is currently at point a. This figure depicts an economy:
   A) in neither short-run nor long-run equilibrium.
   B) in short-run equilibrium only.
   C) in both short-run and long-run equilibrium.
   D) in long-run equilibrium only.

28. The $787 billion stimulus package passed in the United States in 2009 focused more on spending than on taxes partly because:
   A) increased spending leads to a larger increase in GDP than the same reduction in taxes.
   B) increased spending leads to a smaller increase in GDP than the same reduction in taxes.
   C) the government tax multiplier is more than the government spending multiplier.
   D) the government revenue multiplier is about the same as the government tax multiplier.
29. If the economy is producing at an output level below full employment, the government should __________ spending and ________ taxes.
A) decrease; increase
B) decrease; decrease
C) increase; decrease
D) increase; increase

Use the following to answer question 30:

**Figure: Effects of Policy Shifts**

30. (Figure: Effects of Policy Shifts) If government spending increases, shifting aggregate demand from _____ to _____, aggregate output will increase from _____ to _____.
A) AD₁; AD₀; Qᵢ; Q₀
B) AD₁; AD₀; Q₀; Qᵢ
C) AD₀; AD₁; Q₀; Qᵢ
D) AD₀; AD₁; Qᵢ; Q₀
31. (Figure: Determining Fiscal Policy) Expansionary fiscal policies could:
   A) move the economy to full employment.
   B) move the economy away from full employment.
   C) lead to a lower price level.
   D) lead to a lower price level and lower unemployment.

32. __________ marginal tax rates and _______________ are commonly used to increase aggregate supply.
   A) Lowering; increasing government transfer payments
   B) Lowering; offering investment tax credits
   C) Raising; increasing government transfer payments
   D) Raising; reducing government spending
33. **Figure: Laffer Curve 2**

(Figure: Laffer Curve 2) The figure shows the Laffer curve for an economy whose tax rate is 80%. Supply-side economists would argue that the government should:

A) reduce the tax rate to 40%.
B) reduce the tax rate to 20%.
C) keep the tax rate at 80%.
D) reduce the tax rate to 60%.

34. When a firm can _____ its capital equipment over a shorter period, it cuts its taxes _____.

A) appreciate; later
B) appreciate; now
C) depreciate; now
D) depreciate; later

35. Which of the following statements is TRUE?

A) Tax revenues are maximized when the tax rate is 100%.
B) Not knowing the economy’s position on the Laffer curve means the effects of lowering tax rates are uncertain.
C) Low marginal tax rates have disincentive effects on work effort.
D) High marginal tax rates increase incentives to work.
36. The _____ is the sum of past _____.
   A) public debt; national debts
   B) public debt; budget deficits
   C) budget deficit; public debts
   D) budget deficit; national debts

37. If interest rates fall, the burden of a nation's public debt will _____ and it will be _____
   difficult to service its debt.
   A) fall; less
   B) fall; more
   C) rise; less
   D) rise; more

38. According to the crowding out effect, if the government sells bonds to finance spending,
   _____ can eventually fall.
   A) consumption and government expenditure
   B) government expenditure and investment
   C) consumption and investment
   D) exports and investment

39. Which of the following program(s) is (are) most likely to have a large generational
   imbalance?
   A) road or dam building
   B) agricultural price supports
   C) Medicare
   D) All of the answers are correct.

40. As GDP increases, tax revenues _____, which in turn _____ GDP growth.
   A) decline; restrains
   B) decline; expands
   C) increase; restrains
   D) increase; expands
1. B
2. A
3. D
4. D
5. A
6. A
7. C
8. B
9. A
10. C
11. D
12. D
13. A
14. D
15. B
16. D
17. B
18. C
19. A
20. C
21. C
22. D
23. B
24. B
25. A
26. A
27. B
28. A
29. C
30. C
31. A
32. B
33. A
34. C
35. B
36. B
37. A
38. C
39. C
40. C