Gazi University Spring 2014
Department of Economics
ECON 102

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Problem Set 5

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) The change in consumption divided by the change in income is equal to:
A) MPC + MPS. B) the MPS. C) 1 - MPC. D) the MPC.

2) [Y - C] equals:
A) the MPS. B) spending. C) saving. D) the MPC.

3) If the MPS is 0.25, MPC is:
A) 1.25. B) 0.75. C) 1.75. D) 1.00.

4) If Jimmy received a $500 bonus and his MPS is 0.20, his consumption rises by $________ and his saving rises by $________.
A) 400; 100 B) 1,000; 100 C) 100; 50 D) 500; 20

5) Savings is:
A) the same as saving.
B) the current stock of accumulated saving.
C) the part of income that a household does not consume in a given period.
D) all of the above

6) Uncertainty about the future is likely to:
A) have no impact on current spending.
B) decrease current spending.
C) either increase or decrease current spending.
D) increase current spending.

7) Lower interest rates are likely to:
A) decrease consumer spending and increase consumer saving.
B) have no effect on consumer spending or saving.
C) decrease both consumer spending and consumer saving.
D) increase consumer spending and decrease consumer saving.

8) Consumption is ________ related to household income and wealth and households' expectations about the future, and ________ related to interest rates.
A) positively; is not
B) positively; positively
C) positively; negatively
D) negatively; positively

9) In a closed economy with no government, ________ is consumption plus investment.
A) aggregate expenditures
B) national income
C) real spending
D) saving

10) If Lorena's income is reduced to zero after she loses her job, her ________ will be greater than zero and her ________ will be less than zero.
A) consumption; expenses
B) consumption; saving
C) saving; investment
D) taxes; consumption

11) If Amanda's total consumption is $2,000 a month, the fraction of her income that she consumes is 70%, and her income is $3,000, the amount of money she consumes when her income is zero is:
A) $1,000.
B) $1,400.
C) $100.
D) $700.

Refer to the information provided in Figure 8.1 below to answer the questions that follow.

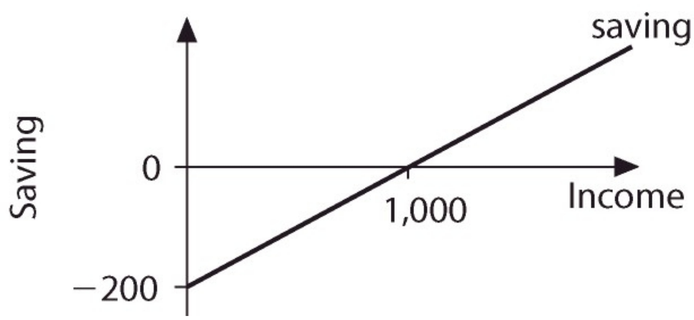

Figure 8.1

12) Refer to Figure 8.1. The ________ for this household is 0.2 and the ________ is 0.8.
A) MPS; MPC
B) MPS; saving function
C) MPC; MPS
D) MPC; consumption function

13) Refer to Figure 8.1. [-200 + .2Y] is this household's:
A) MPC.
B) saving function.
C) MPS.
D) consumption.

14) Refer to Figure 8.1. At income level ________, this household's saving is greater than than (to) zero and this household's consumption is greater than than (to) zero.
A) $1,200
B) -$200
C) $1,000
D) $800

15) Refer to Figure 8.1. [200 + 0.8Y] is this household's:
A) saving function.
B) MPC.
C) consumption function.
D) MPS.

16) Refer to Figure 8.1. This household consumes ________ at an income level of $1,375.
A) $1,000
B) $1,200
C) $1400
D) $1,300

17) Refer to Figure 8.1. This household saves ________ at an income level of $750.
A) $0
B) -$200
C) $200
D) -$50

18) Refer to Figure 8.1. A(n) ________ in the amount of ________ this household makes when this household's income is zero shifts the saving function downward.
A) decrease; spending
B) increase; consumption
C) decrease; consumption
D) increase; saving

19) Refer to Figure 8.1. A decrease in the MPS:
A) makes the consumption function flatter.
B) shifts the saving function downward.
C) shifts the consumption function upward.
D) makes the saving function flatter.

20) If the consumption function is of the form [C = 60 + 0.6Y], the MPS equals:
A) -0.6.
B) -36.
C) 0.6.
D) 0.4.

21) A change in inventory is equal to:
A) production - sales.
B) production + sales.
C) sales x production.
D) sales - production.

22) If unplanned business investment is $20 million and planned investment is $20 million, then actual investment is:
A) $40 million.
B) $20 million.
C) zero.
D) -$20 million.

23) In 2005, the Isle of Lucy's planned investment was $120 billion and its actual investment was $150 billion. In 2005, the Isle of Lucy's unplanned inventory change was:
A) $30 billion.
B) $27 billion.
C) $270 billion.
D) $15 billion.