

Closed Economy Expenditure Model Test
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1. Consumption, a component of expenditures, is most dependent on

- (A) Business profit
- (B) Wealth
- (C) Advertising
- (D) Exports
- (E) Income

2. The amount of Consumption that occurs regardless of disposable income is called:

- (A) illegal consumption
- (B) autonomous consumption
- (C) conspicuous consumption
- (D) unemployment consumption
- (E) indifferent consumption

3. Which of the following is true about Consumption?

- (A) It is the smallest part of aggregate demand.
- (B) It is the largest part of aggregate demand.
- (C) It is mostly dependent on wealth.
- (D) It is mostly dependent on imports.
- (E) As a part of GDP, it fluctuates more than any other component.

4. The spending multiplier is calculated by using the

- (A) total consumption income.
- (B) average propensity to consume.
- (C) mean propensity to consume.
- (D) marginal propensity to consume.
- (E) absolute propensity to consume.

5. Which of the following is not considered consumption?

- (A) The rental of an apartment.
- (B) The purchase of a bond.
- (C) The purchase of a new refrigerator.
- (D) The purchase of a haircut.
- (E) The purchase of an hour in a tanning salon.

6. The sector of the economy that is responsible for Consumption is:

- (A) the Government sector.
- (B) the Business sector.
- (C) the Household sector.
- (D) the Advertising sector.
- (E) the Payroll sector.

7. Which of the following will not affect Consumption?

- (A) A change in the tax rate.
- (B) A change in disposable income.
- (C) A change in the interest rate.
- (D) A change in national income.
- (E) An increase in inventory.

8. The marginal propensity to consume is calculated by

- (A) dividing consumption by disposable income.
- (B) dividing the change in consumption by the change in disposable income.
- (C) multiplying consumption by disposable income.
- (D) dividing the change in savings by disposable income.
- (E) dividing the change in disposable income by the change in consumption.

9. The portion of disposable income that is not used for consumption is

- (A) saved.
- (B) saved only if it is put into a bank.
- (C) saved only if it is put into a bank or kept in cash.
- (D) used for the purchase of durable goods.
- (E) saved only if it is used to buy bonds or stock.

10. Which of the following would not necessarily affect a short run change in the expenditure for Consumption?

- (A) a change in tax rates.
- (B) an increase in imports.
- (C) an increase the savings rate.
- (D) an increase in Government purchases financed by a deficit.
- (E) a decrease in the interest rate.

11. An increase in Consumption expenditures brought on by an increase in the value of assets is referred to as the:

- (A) income effect.
- (B) inflation effect.
- (C) wealth effect.
- (D) money effect.
- (E) irrational exuberance effect.

12. If personal income increases by 10% and total taxes revenues increase by 10%, and the savings rate does not change, then

- (A) Consumption will not change.
- (B) Consumption will decrease.
- (C) Consumption will increase.
- (D) Change in consumption cannot be determined.
- (E) Savings will decrease.

13. The component of expenditures called Investment does not include

- (A) the purchase of stock on the secondary market.
- (B) inventories.
- (C) new buildings.
- (D) new equipment.
- (E) new houses.

14. In the short-run, Business can finance Investment by

- (A) borrowing from the domestic households by selling bonds.
- (B) borrowing from the domestic households by selling bonds or by selling new shares of stock.
- (C) borrowing from the households by selling bonds or by selling new shares of stock or by retained earnings.
- (D) borrowing from the households and banks.
- (E) borrowing from domestic sources.

15. As one of the components of GDP, Investment is the

- (A) most stable component.
- (B) most volatile component.
- (C) largest component.
- (D) the component that does not affect long-run growth.
- (E) the component that is never affected by recessions.

16. Gross Investments includes

- (A) the Investment in ugly buildings only.
- (B) purchases of financial assets in the primary and secondary markets.
- (C) new Investment and Replacement Investment.
- (D) only buildings and equipment.
- (E) only new, non-replacement buildings, equipment, and inventories.

17. In the short-run, Investment decisions are affected by

- (A) interest rates (cost of capital) only.
- (B) interest rates (cost of capital) and the future profits outlook.
- (C) interest rates (cost of capital) and past profits only.
- (D) past profits.
- (E) current sales.

18. Net Investment is calculated by

- (A) web technology growth.
- (B) subtracting new residential housing from Gross Investment.
- (C) subtracting inventories from Gross Investment.
- (D) subtracting capital consumption allowance (depreciation) from Gross Investment.
- (E) subtracting savings from Gross Investment.

19. Unplanned Investment is the

- (A) unintended acquisition of factories.
- (B) unintended build up of inventories.
- (C) unintended depreciation.
- (D) new residential buildings.
- (E) unintended retained earnings.

20. An increase in net Investment will always

- (A) lead to an increase in the long-run aggregate supply.
- (B) lead to a decrease in the long-run aggregate supply.
- (C) lead to an increase in the long-run supply if it includes additions to the capital stock.
- (D) lead to inflation.
- (E) lead to an increase in potential GDP.

21. Which of the following will signal a potential short-run decrease in real GDP?

- (A) An increase in net Investment.
- (B) An increase in unplanned inventory.
- (C) A decrease in inventory.
- (D) An increase in the capital consumption allowance.
- (E) An increase in gross Investment.

22. An increase in Investment that includes an increase in the capital stock will

- (A) shift the long-run aggregate supply to the left and the production possibilities curve to the left.
- (B) shift the long-run aggregate supply to the right and the production possibilities curve to the left.
- (C) shift the long-run aggregate supply curve to the left and the production possibilities curve to the right.
- (D) shift the long-run aggregate supply curve to the right and the production possibilities curve to the right.
- (E) shift the long-run aggregate supply curve to the right and have no effect on the production possibilities curve.

23. The "crowding-out" model assumes that Investment will decrease if

- (A) Consumption decreases.
- (B) Government purchases decrease.
- (C) Households increase the purchase of new housing.
- (D) Government runs a deficit at a time of full-employment.
- (E) Nominal interest rates increase.

24. Disinvestment occurs when the level of Investment is

- (A) less than the previous year.
- (B) more than the previous year.
- (C) less than retained earnings.
- (D) less than depreciation.
- (E) less than Government Purchases.

25. Government Purchases does not include

- (A) transfer payments.
- (B) spending on defense items.
- (C) spending by States.
- (D) spending by municipalities.
- (E) spending on roads.

26. Is the Government is running a deficit, than

- (A) Government Purchases must have increased.
- (B) Government tax revenues must have decreased.
- (C) Government Purchases exceed tax revenues.
- (D) Government is not purchasing enough.
- (E) Government Purchases are less than transfer payments.

27. Social Security payment to senior citizens are

- (A) are not the largest part of Government Purchases.
- (B) are not part of Government Purchases.
- (C) are currently paid for primarily through the income tax.
- (D) are adding to the current deficit.
- (E) the largest part of Government Purchases.

28. The cost of public education

- (A) is not part of Government Purchases.
- (B) is part of transfer payments.
- (C) is part of Government Purchases.
- (D) certainly has no affect on long-run economic growth.
- (E) is funded primarily by the Federal Government.

29. Decisions regarding changes in Government Purchases are part of

- (A) monetary policy.
- (B) fiscal policy.
- (C) liberal policy.
- (D) conservative policy.
- (E) contractionary policy.

30. In the short-run, if the Government increases Government Purchases by \$800 billion dollars and increases taxes by \$800 billion dollars the affect on Aggregate Demand will be

- (A) positive.
- (B) negative.
- (C) neutral.
- (D) indeterminate.
- (E) increase the deficit.

31. In a recession, a majority of economist would argue that Government Purchases should be

- (A) decreased because that is what a prudent household would do.
- (B) decreased because the government should never run a deficit.
- (C) increased because aggregate demand is already increasing and the government should be part of it.
- (D) increased because aggregate demand is decreasing and households and businesses are not likely to expand Consumption and Investment.
- (E) increased by starting a war to stimulate the economy.

32. If the government rebuilds the country's infrastructure in roads, bridges, security, etc. by hiring private sector companies to do the work, this will be considered part of

- (A) The component of GDP called Investment.
- (B) The component of GDP called Consumption.
- (C) The component of GDP called Government Purchases.
- (D) Transfer payments.
- (E) Government spending that has no long-run effect.

33. Government Purchases in the United States are

- (A) largest part of Aggregate Expenditures.
- (B) smallest part of Aggregate Expenditures.
- (C) not part of Aggregate Expenditures.
- (D) the second largest part of Aggregate Expenditures.
- (E) a larger part of total GDP than Government Purchases in any other industrial country.

34. Government spending is

- (A) the same as Government Purchases.
- (B) not the same as Government Purchases because it includes the spending on things that have a long-run economic growth affect.
- (C) not the same as Government Purchases because it includes transfer payments.
- (D) affects the Aggregate Demand through the Government Purchases component.
- (E) not the same as Government Purchases because it includes defense spending.

35. If Government Purchases and transfer payments are less than tax revenues and Household savings is positive, then

- (A) a deficit occurs.
- (B) aggregate demand must automatically decrease.
- (C) Investment must decrease.
- (D) National savings must increase.
- (E) Capital stock must decrease.

36. A \$800 billion increase in Government Purchases will have a greater effect on short-run spending and income than a \$800 billion decrease in personal taxes because

- (A) The Government knows how to spend better than households.
- (B) Government can print the money.
- (C) Businesses cannot get any profits from Government Purchases.
- (D) Households do not spend 100% of their marginal income.
- (E) Households will not increase their spending as their disposable income increases.

37. The spending multiplier will have an effect on any new, additional spending in the component(s) of

- (A) Consumption
- (B) Investment
- (C) Government Purchases
- (D) Investment and Government Purchases
- (E) Consumption, Investment, Government Purchases

38. If we are looking at the following expenditure equation: $GDP = C + I + G$, we are looking at

- (A) An economy engaged in global trade.
- (B) A closed economy.
- (C) An economy without a capital market.
- (D) An economy without a military.
- (E) An open economy.

39. Which of the following would not likely deal with the problem of demand pull inflation?

- (A) A decrease in G spending
- (B) An increase in the interest rate.
- (C) A decrease in the interest rate.
- (D) A decrease in Consumption.
- (E) A decrease in Investment.

40. Which of the following would have an immediate affect Consumption?

- (A) The total purchase price of a stock.
- (B) The portion of the total purchase price of a stock that represents the agent's commission.
- (C) The anticipated increase in the price of a stock that was just purchased.
- (D) The anticipated dividend from a stock that is held in a retirement account.
- (E) None of the total purchase price of a stock including any commissions and services associated with the price.