

ECON 2630 – Practice Problems 6

1. In the short run,
 - a. spending determines income, but not the other way around
 - b. income determines spending, but not the other way around
 - c. spending determines income, and income determines spending
 - d. spending determines the price level, and the price level determines spending

2. Which of the following is the definition of *autonomous consumption spending*?
 - a. the effect of a change in wealth on consumption spending
 - b. the part of consumption spending that is independent of disposable income
 - c. the impact of disposable income on consumption spending
 - d. the part of consumption spending that is independent of wealth

3. The consumption function shows the relationship between real consumption spending and
 - a. real wealth
 - b. the interest rate
 - c. expectations
 - d. real disposable income

4. Use the table below to find the marginal propensity to consume.

Real Disposable Income (\$Billions)	Real Consumption Spending (\$Billions)
\$1,000	\$ 800
1,100	875
1,200	950
1,300	1,025

- a. 0.5
 - b. 0.65
 - c. 0.75
 - d. 0.8
-
5. If net taxes decrease, which of the following would occur?
 - a. Disposable income decreases, consumption at any income level increases, and the consumption-income line shifts upward.
 - b. Disposable income increases, consumption at any income level increases, and the consumption-income line shifts downward.
 - c. Disposable income increases, consumption at any income level increases, and the consumption-income line shifts upward.
 - d. Disposable income decreases, consumption at any income level decreases, and the consumption-income line shifts downward.

6. Which of the following would cause the consumption function to shift downward?
 - a. a decrease in taxes
 - b. a decrease in interest rates
 - c. consumers become more pessimistic about the future
 - d. consumers become more optimistic about the future

7. Everything else equal, a higher interest rate
 - a. increase consumption spending as people face increasing debt
 - b. reduce consumption spending as people have a greater incentive to save
 - c. not change consumption spending because consumption is only affected by income
 - d. not change total consumption spending, but to change who does the spending
 - e. reduce both consumption spending and saving as people face increased debt

8. Which of the following is the definition of *wealth*?
 - a. real disposable income
 - b. the total value of assets
 - c. real income
 - d. the value of liabilities minus the value of assets
 - e. the value of assets minus the value of outstanding liabilities

9. Which of the following would unambiguously increase consumption spending?
 - a. an increase in real disposable income coupled with a decrease in real wealth
 - b. an increase in real wealth coupled with more pessimistic expectations regarding future income
 - c. a decrease in real disposable income coupled with a decrease in the interest rate
 - d. a decrease in the interest rate coupled with an increase in real wealth
 - e. increased pessimism regarding future income coupled with an increase in the interest rate

10. If real disposable income increased by \$10,000 and real consumption spending increased by \$7,500, what is the marginal propensity to save (MPS)?
 - a. 0.25
 - b. 1.25
 - c. 0.75
 - d. 1.75