

## 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
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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 decrease in taxes
  - a decrease in interest rates
  - consumers become more pessimistic about the future
  - consumers become more optimistic about the future
7. Everything else equal, a higher interest rate
- increase consumption spending as people face increasing debt
  - reduce consumption spending as people have a greater incentive to save
  - not change consumption spending because consumption is only affected by income
  - not change total consumption spending, but to change who does the spending
  - reduce both consumption spending and saving as people face increased debt
8. Which of the following is the definition of *wealth*?
- real disposable income
  - the total value of assets
  - real income
  - the value of liabilities minus the value of assets
  - the value of assets minus the value of outstanding liabilities
9. Which of the following would unambiguously increase consumption spending?
- an increase in real disposable income coupled with a decrease in real wealth
  - an increase in real wealth coupled with more pessimistic expectations regarding future income
  - a decrease in real disposable income coupled with a decrease in the interest rate
  - a decrease in the interest rate coupled with an increase in real wealth
  - 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)?
- 0.25
  - 1.25
  - 0.75
  - 1.75