

Chapter 4

Q1: MCQ

Use the following to answer questions 1-3:

Answer the next question(s) on the basis of the following data:

income After-tax	Consumption
\$1000	\$900
2000	1800
3000	2700
4000	3600
5000	4500

1. The above data suggest that:

- A) consumption varies inversely with after-tax income.
- B) consumption varies directly with after-tax income.
- C) consumption and after-tax income are unrelated.
- D) a tax increase will increase consumption.

Answer: B

2. The above data indicate that:

- A) consumers spend 80 percent of their after-tax incomes.
- B) consumers spend 90 percent of their after-tax incomes.
- C) a tax reduction will reduce consumption.
- D) the relationship between consumption and after-tax income is random.

Answer: B

3. The above data suggest that:

- A) a policy of tax reduction will increase consumption.
- B) a policy of tax increases will increase consumption.
- C) tax changes will have no impact on consumption.
- D) after-tax income should be lowered to increase consumption.

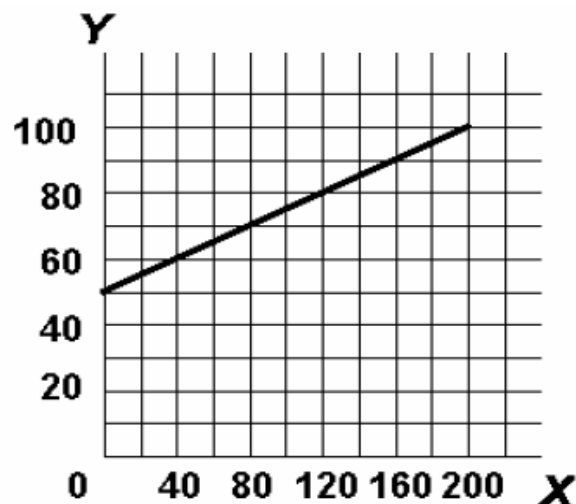
Answer: A

4. The slope of a straight line can be determined by:

- A) comparing the absolute horizontal change to the absolute vertical change between two points on the line.
- B) comparing the absolute vertical change to the absolute horizontal change between two points on the line.
- C) taking the reciprocal of the vertical intercept.
- D) comparing the percentage vertical change to the percentage horizontal change between two points on the line.

Answer: B

Use the following to answer questions 5-6:



5. Refer to the above diagram. The variables X and Y are:

- A) inversely related. B) directly related. C) unrelated. D) negatively related.

Answer: B

6. Refer to the above diagram. The vertical intercept:

- A) is 40. B) is 50. C) is 60.
- D) cannot be determined from the information given.

Answer: B

7. If the equation $y = 5 + 6x$ was graphed, the:

- A) slope would be -5. C) slope would be +.6.
- B) slope would be +5. D) vertical intercept would be +.6.

Answer: C

8. If the equation $y = 15 - 4x$ was plotted, the:

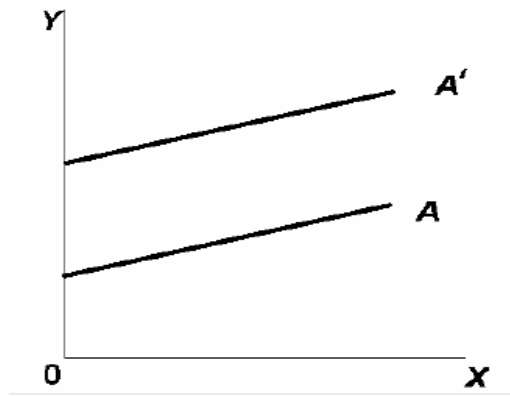
- A) vertical intercept would be -4. C) vertical intercept would be +9.
- B) vertical intercept would be +4. D) slope would be -4.

Answer: D

9. If the equation $y = -10 + 2.5x$ was plotted:

- A) the vertical intercept would be -10. C) it would graph as a down sloping line.
B) the slope would be -7.5. D) the slope would be -10.

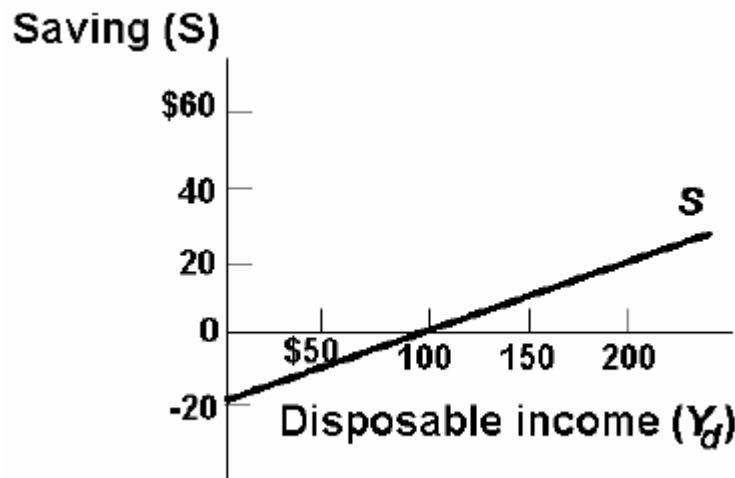
Answer: A



10. The movement from line A to line A' represents a change in:

- A) the slope only. C) both the slope and the intercept.
B) the intercept only. D) neither the slope nor the intercept.

Answer: B



11. Refer to the above diagram. The break-even level of disposable income:

- A) is zero. B) is minus \$10. C) is \$100.
D) cannot be determined from the information given.

Answer: C

12. Refer to the above diagram. The marginal propensity to consume is:

- A) .2. B) .8. C) .4. D) .3.

Answer: B

13. The equation for the above saving schedule is:

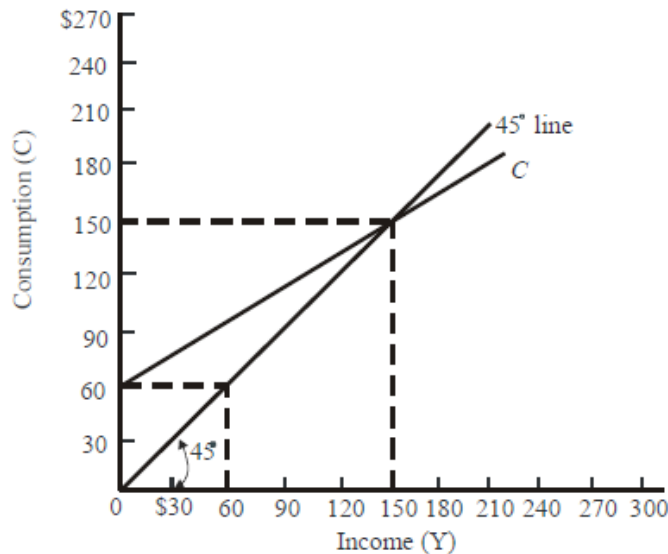
- A) $Y_d = -20 + .8S$. B) $Y_d = 20 + .2S$. C) $S = -20 + .2Y_d$. D) $S = 20 + .8Y_d$.

Answer: C

14. Refer to the above diagram. The average propensity to consume:

- A) is greater than 1 at all levels of disposable income above \$100.
 B) is greater than 1 at all levels of disposable income below \$100.
 C) is equal to the average propensity to save.
 D) cannot be determined from the information given.

Answer: B



15. Refer to the above diagram. The break-even level of income is:

- A) zero. B) \$150. C) \$60. D) \$120.

Answer: B

16. Refer to the above diagram. The average propensity to consume is:

- A) greater than 1 at all levels of income above \$150.
 B) greater than 1 at all levels of income below \$150.
 C) zero.
 D) .6.

Answer: B

17. Refer to the above diagram. The marginal propensity to consume is:

- A) .4. B) .6. C) .5. D) .8.

Answer: B

18. Refer to the above diagram. The equation for the consumption schedule is:

- A) $C = .6Y$. B) $Y = 60 + .6C$. C) $C = 60 + .6Y$. D) $C = 60 + .4Y$.

Answer: C

Use the following to answer questions 19-20:

Answer the next question(s) on the basis of the following data:

Disposable income (Yd)	Consumption(C)
\$0	\$40
100	100
200	160
300	220
400	280

19. Which of the following equations correctly represents the above data?

- A) $Yd = 40 + .6C$ B) $C = 60 + .4Yd$ C) $C = 40 + .6Yd$ D) $C = .6Yd$

Answer: C

20. Which of the following equations represents the saving schedule implicit in the above data?

- A) $S = C - Yd$ B) $S = 40 + .4Yd$ C) $S = 40 + .6Yd$ D) $S = -40 + .4Yd$

Answer: D

21. Other things equal, a decrease in the real interest rate will:

- A) shift the investment demand curve to the right.
B) shift the investment demand curve to the left.
C) move the economy upward along its existing investment demand curve.
D) move the economy downward along its existing investment demand curve.

Answer: D

22. A decline in the real interest rate will:

- A) increase the amount of investment spending.
- B) shift the investment schedule downward.
- C) shift the investment demand curve to the right.
- D) shift the investment demand curve to the left.

Answer: A

23. Other things equal, the real interest rate and the level of investment are:

- A) related only when saving equals planned investment.
- B) unrelated.
- C) inversely related.
- D) directly related.

Answer: C

The multiplier

1. The multiplier effect means that:

- A) consumption is typically several times as large as saving.
- B) a change in consumption can cause a larger increase in investment.
- C) an increase in investment can cause GDP to change by a larger amount.
- D) a decline in the MPC can cause GDP to rise by several times that amount.

Answer: C

2. The multiplier is:

- A) $1/\text{MPC}$.
- B) $1/(1 + \text{MPC})$.
- C) $1/\text{MPS}$.
- D) $1/(1 - \text{MPS})$.

Answer: C

3. The multiplier is useful in determining the:

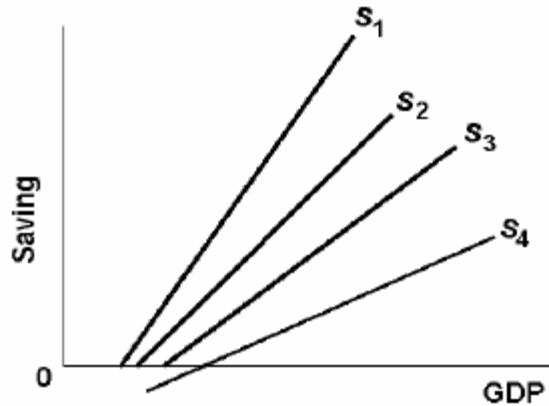
- A) full-employment unemployment rate.
- B) level of business inventories.
- C) rate of inflation.
- D) change in GDP resulting from a change in spending.

Answer: D

4. The multiplier is defined as:

- A) $1 - \text{MPS}$.
- B) $\text{change in GDP} \times \text{initial change in spending}$.
- C) $\text{change in GDP} / \text{initial change in spending}$.
- D) $\text{change in GDP} - \text{initial change in spending}$.

Answer: C



5. The above figure shows the saving schedules for economies 1, 2, 3, and 4. Which economy has the highest marginal propensity to consume?

- A) 1 B) 2 C) 3 D) 4

Answer: D

6. The above figure shows the saving schedules for economies 1, 2, 3, and 4. Which economy has the largest multiplier?

- A) 1 B) 2 C) 3 D) 4

Answer: D

7. If 100 percent of any change in income is spent, the multiplier will be:

- A) equal to the MPC. B) 1. C) zero. D) infinitely large.

Answer: D

8. The multiplier can be calculated as:

- A) $1/(MPS + MPC)$ B) MPC/MPS C) $1/(1 - MPC)$ D) $1 - MPC = MPS$

Answer: C

9. If the MPC is .70 and gross investment increases by \$3 billion, the equilibrium GDP will:

- A) increase by \$10 billion. C) decrease by \$4.29 billion.
B) increase by \$2.10 billion. D) increase by \$4.29 billion.

Answer: A

10. The numerical value of the multiplier will be smaller the:

- A) larger the average propensity to consume.
B) larger the slope of the saving schedule.
C) larger the slope of the consumption schedule.

D) smaller the slope of the saving schedule.

Answer: B

11. The practical significance of the multiplier is that it:

A) equates the real interest rate and the expected rate of return on investment.

B) magnifies initial changes in spending into larger changes in GDP.

C) keeps inflation within tolerable limits.

D) helps to stabilize the economy.

Answer: B

12. The multiplier:

A) varies directly with the slope of the investment demand schedule.

B) is unrelated to the slope of the saving schedule.

C) will be greater, the smaller is the slope of the saving schedule.

D) will be greater, the steeper is the slope of the saving schedule.

Answer: C

13. The increase in income that results from an increase in investment spending would be greater the:

A) smaller the MPS. B) smaller the APC. C) larger the MPS. D) smaller the MPC.

Answer: A

14. The multiplier effect:

A) reduces the MPC.

B) magnifies changes in spending into larger changes in output and income.

C) promotes stability of the general price level.

D) lessens upswings and downswings in business activity.

Answer: B

15. If the MPC is .6, the multiplier will be:

A) 4.0.

B) 6.0.

C) 2.5.

D) 1.67.

Answer: C

16. Assume the MPC is $\frac{2}{3}$. If investment spending increases by \$2 billion, the level of GDP will increase by:

A) \$3 billion. B) $\frac{2}{3}$ billion. C) \$6 billion. D) \$2 billion.

Answer: C

17. The multiplier is:

A) $\frac{1}{APC}$.

B) $\frac{1}{APC}$.

C) $\frac{1}{MPC}$.

D) $\frac{1}{MPS}$.

Answer: D

18. The multiplier applies to:

- A) investment but not to net exports or government spending.
- B) investment, net exports, and government spending.
- C) increases in spending but not to decreases in spending.
- D) spending by the private sector but not by the public sector.

Answer: B

19. The multiplier effect indicates that:

- A) a decline in the interest rate will cause a proportionately larger increase in investment.
- B) a change in spending will change aggregate income by a larger amount.
- C) a change in spending will increase aggregate income by the same amount.
- D) an increase in total income will generate a larger change in aggregate expenditures.

Answer: B

20. If a \$200 billion increase in investment spending creates \$200 billion of new income in the first round of the multiplier process and \$160 billion in the second round, the multiplier in the economy is:

- A) 4.
- B) 5.
- C) 3.33.
- D) 2.5.

Answer: B

21. If a \$500 billion increase in investment spending increases income by \$500 billion in the first round of the multiplier process and by \$450 in the second round, income will eventually increase by:

- A) \$2500 billion.
- B) \$3000 billion.
- C) \$4000 billion.
- D) \$5000 billion.

Answer: D

22. If the marginal propensity to save is 0.2 in an economy, a \$20 billion rise in investment spending will increase:

- A) GDP by \$120 billion.
- B) GDP by \$20 billion.
- C) saving by \$25 billion.
- D) consumption by \$80 billion.

Answer: D

23. A \$1 billion increase in investment will cause a:

- A) $(1/\text{MPS})$ billion increase in GDP.
- B) (MPS) billion increase in GDP.
- C) $(1 - \text{MPC})$ billion increase in GDP.
- D) $(\text{MPC} - \text{MPS})$ billion increase in GDP.

Answer: A

24. The Council of Economic Advisers has estimated that the actual multiplier for the U.S. economy is approximately:

- A) 4. B) 3.5. C) 3. D) 2.

Answer: D

Use the following to answer questions 25-29:

The following schedule contains data for a private closed economy. All figures are in billions. Use these data in answering the next question(s).

GDP	C
140	150
180	180
220	210
260	240
300	270

25. Refer to the above data. If gross investment is \$10 at all levels of GDP, the equilibrium GDP will be:

- A) \$300. B) \$260. C) \$220. D) \$180.

Answer: C

26. Refer to the above data. If a lump-sum tax of \$20 is imposed, the consumption schedule will become:

(a)		(b)		(c)		(d)	
GDP	C	GDP	C	GDP	C	GDP	C
120	150	140	155	140	135	140	130
160	180	180	185	180	165	180	160
200	210	220	215	220	195	220	190
240	240	260	245	260	225	260	220
280	270	300	275	300	255	300	250

Answer: C

27. Refer to the above data. If gross investment remains at \$10 at all levels of GDP, the after-tax equilibrium level of GDP will be:

- A) \$220. B) \$190. C) \$180. D) \$160.

Answer: D

28. Refer to the above data. Given the levels of investment and taxes already specified, the addition of governmental expenditures of \$10 at each level of GDP will result in an equilibrium GDP of:

- A) \$235. B) \$220. C) \$200. D) \$180.

Answer: C

29. Refer to the above information. The addition of a \$100 billion lump-sum tax:

- A) reduces the MPC and increases the multiplier.
B) increases the MPC and decreases the multiplier.
C) increases both the MPC and the multiplier.
D) has no effect on either the MPC or the multiplier.

Answer: D

30. In moving from a private closed to a mixed closed economy in the aggregate expenditures model, taxes:

- A) must be added to gross investment.
B) must be added to saving.
C) must be added to consumption and gross investment.
D) have no impact upon the equilibrium GDP.

Answer: B

31. Suppose government finds it can increase the equilibrium real GDP \$45 billion by increasing government purchases by \$18 billion. On the basis of this information we can say that the:

- A) MPS in this economy is .4.
B) MPC in this economy is .4.
C) balanced-budget multiplier does not apply in this economy.
D) multiplier is 3.

Answer: A

Q2. True or False

1. If the MPC is constant at various levels of income, then the APC must also be constant at all of those income levels.

Answer: False

2. The average propensity to consume is defined as income divided by consumption.

Answer: False

3. $1 - MPC = MPS$.

Answer: True

4. A decline in the real interest rate will shift the investment demand curve to the right.

Answer: False

5. If the Brown family's marginal propensity to consume is 0.70, then it will necessarily consume seven-tenths of its total income.

Answer: False

6. $1 + MPS = MPC$.

Answer: False

7. The slope of the consumption schedule is measured by the MPC.

Answer: True

8. Investment is highly stable; it rarely changes.

Answer: False

9. The greater the MPC, the greater the multiplier.

Answer: True

10. If the MPS is 1, the multiplier will be 1.

Answer: True

11. The multiplier is equal to the reciprocal of the MPC.

Answer: False

12. The multiplier shows the relationship between changes in a component of spending, say, investment, and the consequent changes in real income and output.

Answer: True

13. The estimate for the value of the real-world multiplier is 2.

Answer: True

14. For an open mixed economy the equilibrium level of GDP is determined where $S_a + I_g + X = T + G$.

Answer: False

15. Equal increases in government expenditures and tax collections will leave the equilibrium GDP unchanged.

Answer: False

16. If the MPC is .9, a \$20 billion increase in a lump-sum tax will reduce GDP by \$200 billion.

Answer: False

Q3. THE GOODS MARKET

(All units are millions of US dollars)

$$C = 500 + (0.5)Y_D, I = 100, T = 80, G = 200$$

1. Solve for the goods market equilibrium. (Find equilibrium Y , Z , C , and Y_D .)
2. Graph (with correct labels) equilibrium Y and Z .
3. Solve for private saving and public saving.
4. What is the value of marginal propensity to consume (mpc)? What does it mean?
5. What is the value of marginal propensity to save (mps)?
6. What is the relationship between mpc and mps?
7. Find the multiplier and autonomous spending. Explain what they mean.
8. Now, the government is facing a reelection and increases G from 200 to 240. (Fiscal expansion) Why would the government want to do so? Find the equilibrium demand, output, consumption, and disposable income, then graph.

Solution. THE GOODS MARKET

(All units are millions of US dollars)

$$C = 500 + (0.5)Y_D, I = 100, T = 80, G = 200$$

1. Solve for the good market equilibrium. (Find equilibrium Y , Z , C , and Y_D .)

Total demand: $Z = C + I + G$

Good market equilibrium: $Y = Z$

So, $Y = C + I + G$

Remember $Y_D = Y - T$ $Y_D = (\text{disposable income})$

Substituting in: $Y = 500 + (0.5)(Y - 80) + 100 + 200$ $Y = (0.5)Y + 760$

$Y = 1520$ (equilibrium output)

$Y_D = 1520 - 80 = 1440$ (disposable income)

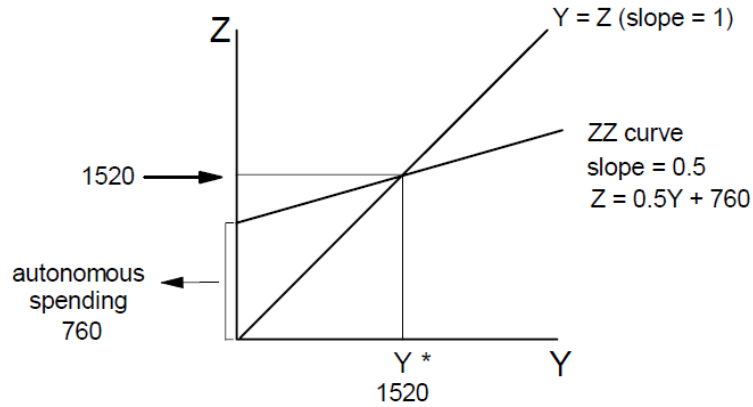
$C = 500 + (0.5)(1440)$

$C = 1220$ (equilibrium consumption)

$Z = 1220 + 100 + 200$

$Z = 1520$ (total demand)

2. Graph (with correct labels) equilibrium Y and Z .



Q4. Given the following information:

$$S = -100 + 0.25Y_d \quad Y_d = 0.8Y \quad , G = 100 \quad I = 100$$

- Find the marginal propensity to consume out of total income? And the marginal propensity to consume out of disposable income?
- What is the aggregate expenditure function?
- What is the equilibrium level of national income? and what is the public saving at that level?

Solution:

a) $Y_d = 0.8Y$ $Y - T = Y_d$

$Y - T = 0.8Y$ $T = 0.2Y$

$C = Y_d - S$ $C = Y_d - (-100 + 0.25Y_d)$

$Y = 100 \quad Y_d = 80 \quad C = 160$

$$\text{MPC out of } Y = \frac{\Delta C}{\Delta Y} = \frac{60}{100} = 0.6$$

$$\text{MPC out of } Y_d = \frac{\Delta C}{\Delta Y_d} = \frac{60}{80} = 0.75$$

b) $AE = C + I + G$

$$AE = 100 + 0.75(0.8Y) + 100 + 100$$

$$AE = 300 + 0.6 Y$$

c) In equilibrium $AE = Y$

$$Y = 300 + 0.6 Y$$

$$T - G = 0.2Y - 100B. S = 0.2 (750) - 100 = 50$$

Chapter 5

Q1: MCQ

Open economy

1. Net exports are:

- A) that portion of consumption and investment goods sent to other countries.
- B) exports plus imports.
- C) exports less imports.
- D) imports less exports.

Answer: C

2. Imports have the same effect on the current size of GDP as:

- A) exports. B) investment. C) consumption. D) saving.

Answer: D

3. Exports have the same effect on the current size of GDP as:

- A) imports. B) investment. C) taxes. D) saving.

Answer: B

4. At the equilibrium GDP for an open economy:

- A) net exports may be either positive or negative.
- B) imports will always exceed exports.
- C) exports will always exceed imports.
- D) exports and imports will be equal.

Answer: A

5. Other things equal, if a change in the tastes of American consumers causes them to purchase more foreign goods at each level of U.S. GDP:

- A) unemployment will decrease domestically.
- B) U.S. GDP will fall.
- C) inflation will occur domestically.
- D) U.S. real GDP will rise.

Answer: B

Use the following to answer questions 6-8

Complete the following table and answer the next question(s) on the basis of the resulting data. All figures are in billions of dollars.

Domestic output (GDP = PI)	Aggregate expenditures closed economy	Exports	Imports	Net Exports	Aggregate expenditures open economy
200	230	30	20	—	—
250	270	30	20	—	—
300	310	30	20	—	—
350	350	30	20	—	—
400	390	30	20	—	—
450	430	30	20	—	—
500	470	30	20	—	—

6. If the above economy was closed to international trade, the equilibrium GDP and the multiplier would be:

- A) \$300 and 5. B) \$350 and 4. C) \$400 and 4. D) \$350 and 5.

Answer: D

7. Refer to the above table. For the open economy the equilibrium GDP and the multiplier are:

- A) \$300 and 2.5. B) \$450 and 5. C) \$400 and 4. D) \$400 and 5.

Answer: D

8. If net exports decline from zero to some negative amount, the aggregate expenditures schedule would:

- A) shift upward.
 B) shift downward.
 C) not move (net exports do not affect aggregate expenditures).
 D) become steeper.

Answer: B

9. An upward shift of the aggregate expenditures schedule might be caused by:

- A) a decrease in exports, with no change in imports.
 B) a decrease in imports, with no change in exports.
 C) an increase in exports, with an equal decrease in investment spending.
 D) an increase in imports, with no change in exports.

Answer: B

10. Other things equal, an increase in an economy's exports will:

- A) lower the marginal propensity to import.
- B) have no effect on domestic GDP because imports will change by an offsetting amount.
- C) decrease its domestic aggregate expenditures and therefore decrease its equilibrium GDP.
- D) increase its domestic aggregate expenditures and therefore increase its equilibrium GDP.

Answer: D

Use the following to answer questions 11-14:

Answer the next question(s) on the basis of the following information for a private open economy:

$$C = 40 + .8Y$$

$$\bar{I} = I = 40$$

$$\bar{X} = X = 20$$

$$\bar{M} = M = 30$$

11. The equilibrium GDP (=Y) in the above economy is:

- A) \$200. B) \$245. C) \$320. D) \$350.

Answer: D

12. Refer to the above information. In equilibrium, saving is:

- A) \$20. B) \$30. C) \$40. D) \$50.

Answer: B

13. Refer to the above information. This nation is incurring:

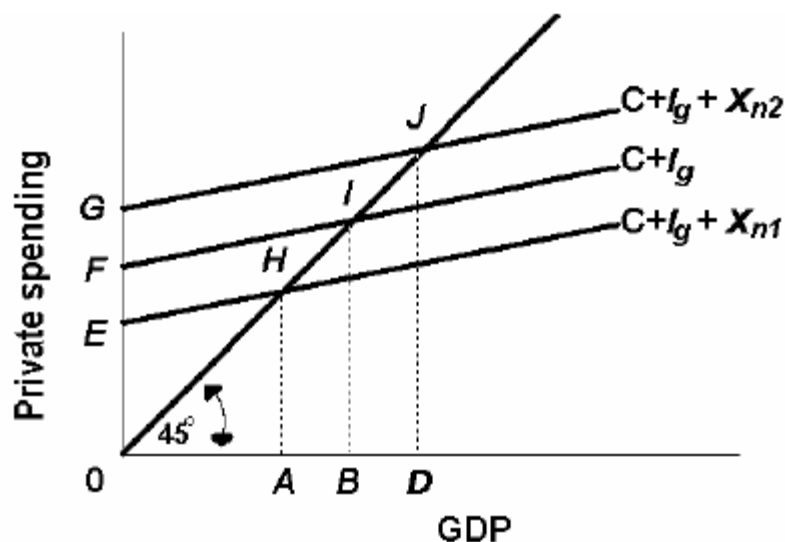
- A) a trade surplus. B) balance in its international trade.
- C) a trade deficit. D) unemployment.

Answer: C

14. Refer to the above information. International trade in this case:

- A) has an expansionary effect on GDP. C) has no effect on GDP.
- B) has a contractionary effect on GDP. D) is causing inflation in this economy.

Answer: B



15. Refer to the above diagram. If $(C + I_g)$ are the private expenditures in the closed economy and X_{n2} are the net exports in the open economy:

- A) exports are negative. C) net exports are negative.
B) net exports are positive. D) exports are positive.

Answer: B

16. Refer to the above diagram. If net exports are X_{n2} , the GDP in the open economy will exceed GDP in the closed economy by:

- A) AB. B) AD. C) FG. D) BD.

Answer: D

17. Refer to the above diagram. The multiplier in this economy is:

- A) $0E/0A$. B) BD/FG . C) FG/BD . D) BD/AD .

Answer: B

18. Refer to the above diagram. If aggregate expenditures in this economy are $(C + I_g + X_{n2})$, then the equilibrium levels of GDP and aggregate expenditures respectively will be:

- A) $0A$ and $0E$. B) $0B$ and $0F$. C) $0A$ and AH . D) $0D$ and DJ .

Answer: D

19. Refer to the above diagram. The change in aggregate expenditures as shown from $(C + I_g + X_{n2})$ to $(C + I_g + X_{n1})$ might be caused by:

- A) an appreciation of this nation's currency relative to the currencies of its trading partners.
B) a depreciation of this nation's currency relative to the currencies of its trading partners.

- C) a decrease in this nation's price level relative to price levels abroad.
- D) a rightward shift in this nation's 45-degree line.

Answer: A

20. Refer to the above diagram. The change in aggregate expenditures as shown from $(C + I_g + X_{n1})$ to $(C + I_g + X_{n2})$ will produce:

- A) a decrease in real GDP.
- B) an inflationary gap if OD is this nation's full-employment level of GDP.
- C) an increase in real GDP if OB is this nation's full-employment level of GDP.
- D) an inflationary gap if OB is this nation's full-employment level of GDP.

Answer: D

Mixed economy

21. In a mixed open economy the equilibrium GDP exists where:

- A) $C_a + I_g + X_n$ intersects the 45-degree line.
- B) $C_a + I_g = S_a + T + X$.
- C) $C_a + I_g + X_n + G = GDP$.
- D) $C_a + I_g + X_n = S_a + T$.

Answer: C

22. In a mixed open economy the equilibrium GDP is determined at that point where:

- A) $S_a + M + T = I_g + X + G$.
- B) the 45-degree line and the saving schedule intersect.
- C) $S_a + X + G = I_g + T$.
- D) $S_a + I_g + X = G + T$.

Answer: A

23. Suppose that a mixed open economy is producing at its equilibrium income and that net exports are zero. If at the equilibrium income the public sector's budget shows a surplus:

- A) $C_a + I_g + X_n + G$ must exceed GDP.
- B) planned investment must exceed saving.
- C) a recessionary gap must exist.
- D) saving must exceed planned investment.

Answer: B

24. Other things equal, if \$100 billion of government purchases (G) is added to private spending $(C + I_g + X_n)$, GDP will:

- A) increase by \$100 billion.
- B) increase by less than \$100 billion.
- C) increase by more than \$100 billion.
- D) fall by \$100 billion

Answer: C

25. Suppose the economy's multiplier is 2. Other things equal, a \$25 billion decrease in government expenditures on national defense will cause equilibrium GDP to:

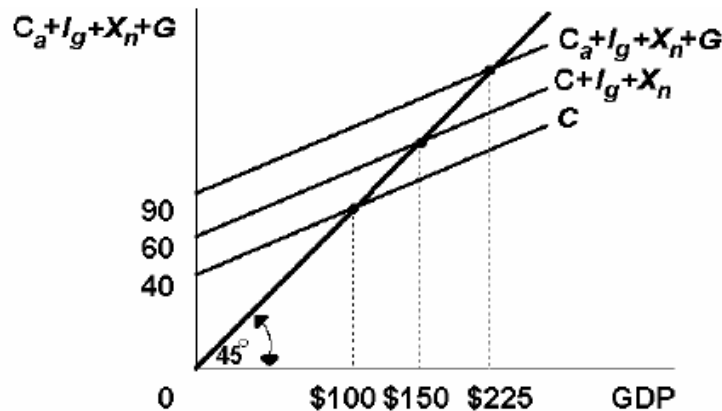
- A) decrease by \$50 billion.
- B) decrease by \$150 billion.
- C) decrease by \$25 billion.
- D) remain unchanged since spending on military goods is unproductive and usually wasteful.

Answer: A

26. Assume the MPC is .8. If government were to impose \$50 billion of new taxes on household income, consumption spending would decrease by:

- A) \$100 billion.
- B) \$90 billion.
- C) \$40 billion
- D) \$50 billion.

Answer: C



27. In a mixed open economy, if aggregate expenditures exceed GDP:

- A) $I_g + X + G = C_a$.
- B) $C_a + I_g + X_n + G < \text{domestic output}$.
- C) $I_g > S$.
- D) $I_g + X + G > S_a + M + T$.

Answer: D

28. Ignoring international trade, in a mixed economy aggregate expenditures are comprised of:

- A) $C_a + S + G$.
- B) $C_a + I_g + G$.
- C) $C_a + S + I_g$.
- D) $C_a + T + I_g$.

Answer: B

29. An increase in taxes of a specific amount will have a smaller impact on the equilibrium GDP than will a decline in government spending of the same amount because:

- A) the MPC is smaller in the private sector than it is in the public sector.

- B) declines in government spending always tend to stimulate private investment.
- C) disposable income will fall by some amount smaller than the tax increase.
- D) some of the tax increase will be paid out of income that would otherwise have been saved.

Answer: D

30. If $APC = .6$ and $MPC = .7$, the immediate impact of an increase in personal taxes of \$20 will be to:

- A) have no effect on consumption.
- C) decrease consumption by \$12.
- B) decrease consumption by \$14.
- D) increase consumption by \$14.

Answer: B

Q2. True or False

1. An increase in exports and taxes lead to an increase in income.

False, an increase in exports (injections) causes an increase in equilibrium national income, while an increase in taxes (leakages) leads to a decrease in equilibrium national income

2. Exports are added to, and imports are subtracted from, aggregate expenditures in moving from a closed to an open economy.

True,

Because exports are injections causing an increase in Y whereas imports are withdrawals causing a decrease in Y