**Student:** ____________________
**Date:** ____________________
**Time:** ____________________

**Instructor:** Muhammad Rahman
**Course:** 20101_Econ202_Principles of Macroeconomics
**Book:** Case/Fair: Principles of Macroeconomics 9e

**Assignment:** Homework_03

1. The multiplier ______________________.

If planned investment is greater than actual investment, then ______________________.

The relationship between aggregate expenditure and real GDP is best described by:

- A. If aggregate expenditure falls short of real GDP, inventories will decrease and real GDP and aggregate income will fall in future.
- B. If aggregate expenditure is equal to real GDP, inventories will decrease and real GDP and aggregate income will increase in future.
- C. If aggregate expenditure is higher than real GDP, inventories will accumulate and real GDP and aggregate income will fall in future.
- D. If aggregate expenditure falls short of real GDP, inventories will accumulate and real GDP and aggregate income will fall in future.

Aggregate output is equal to the ______________________ and aggregate income equals the ______________________.

Aggregate output is ____________ aggregate income.

Answers

is equal to the ratio of change in equilibrium income to a change in autonomous expenditure

inventories decrease and production increases

D

total quantity of goods and services produced in an economy during a time period

total income received by all the factors of production during a time period

always equal to

2. Which of the following best describes the relationship between aggregate expenditureand real GDP?

- A. If aggregate expenditure falls short of real GDP, inventories will accumulate and real GDP and aggregate income will increase in future
- B. If aggregate expenditure falls short of real GDP, inventories will decrease and real GDP and aggregate income will fall in future
- C. If aggregate expenditure falls short of real GDP, inventories will accumulate and real GDP and aggregate income will fall in future
- D. If aggregate expenditure falls short of real GDP, inventories will decrease and real GDP and aggregate income will increase in future

Definition

**Aggregate expenditure:**
Planned aggregate expenditure is the total amount the economy plans to spend in a given period.

Equal to consumption plus planned investent: $AE \equiv C + I$.

Definition

**Real GDP:**
Nominal GDP adjusted for price changes. Gross domestic product measured in base-year dollars.

Answer: C

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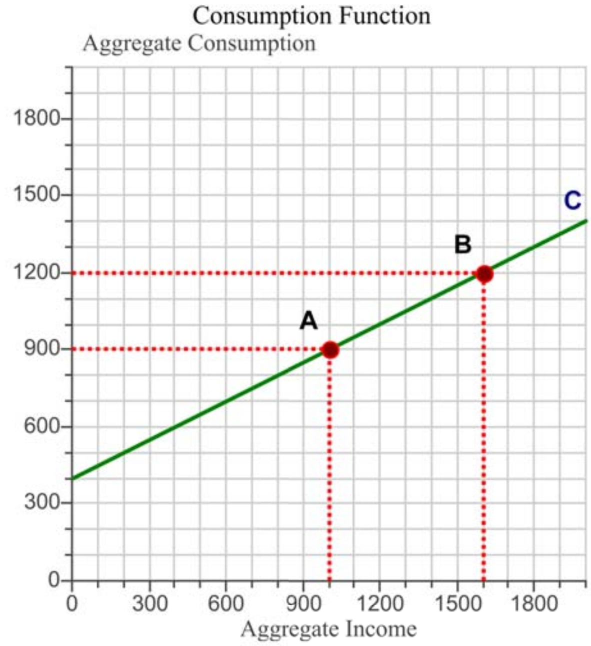
3. The graph shows two points A and B on the consumption function, C, of a small country Tynika.

Marginal Propensity to Consume (MPC) is

- A. 0.75
- B. 0.90
- C. 0.50
- D. not possible to determine without additional information




Definition

**Marginal Propensity to Consume:**
The fraction of a change in income that is consumed, or spent.

Answer: C

4. All of the following changes shift the consumption function *except:*

- A. expectations of higher income in the future
- B. an increase in income
- C. an increase in interest rate
- D. an increase in household wealth

Answer: B

5. The Republic of Yuck is a simple economy with no government, no taxes, and no imports and exports. Yuckers (citizens of Yuck) are creatures of habit. They have a rule that everyone saves exactly 20 percent of income. Assume that planned investment is fixed and remains at 125 billion Yuck dollars.

Expert economists of the Republic of Yuck have estimated the following:

Real GNP (Y) : 200 billion Yuck dollars
Planned Investment Spending (I) : 125 billion Yuck dollars

You are asked by the business editor of the *Weird Herald*, the local newspaper, to predict the economic events of the next few months. Based on the information given above you predict that the inventories will [ ▾ ] and real GNP will [ ▾ ].

Things will stop changing when [ ▾ ].

The Republic of Yuck's economy will reach equilibrium when its Real GNP = [ ] billion Yuck dollars.

Answers **decrease**

**increase**

**saving equals investment**

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6. You are given the following data concerning Freedonia, a legendary country:

Consumption Function: $C = 100 + 0.90Y$
Investment Function: $I = 200$
Aggregate Expenditure Function: $AE = C + I$
Equilibrium: $AE = Y$

Calculate the following:

MPC = [ ]. (*Enter your response rounded to two decimal places.*)
MPS = [ ]. (*Enter your response rounded to two decimal places.*)

The Level of Equilibrium Income, Y = $[ ].

The value of the Investment Multiplier = [ ]. (*Enter your response rounded to two decimal places.*)

The change in the level of equilibrium income if investment increases by $5. $\Delta Y$ = $[ ].

Answers 0.90

0.10

3000

10.00

50.00

7. If MPC increases, the value of the investment multiplier [ ▾ ].

Answer: increases

8. You are given the following data concerning Freedonia, a legendary country:

Consumption Function: $C = 200 + 0.60Y$
Investment Function: $I = 200$
Aggregate Expenditure Function: $AE = C + I$
Equilibrium: $AE = Y$

Calculate the following:

**a.** the Level of Equilibrium Income, Y = [ ]

**b.** the value of the Investment Multiplier = [ ].

**c.** the change in the level of equilibrium income if Investment increases by 10. $\Delta Y$= [ ].

Answers 1000.00

2.50

25.00

9. Consider the following information on the levels of income, consumption and planned investment for a country:

| Aggregate Income/Output | Consumption Expenditure | Planned Investment |
|---|---|---|
| $600 | $800 | $200 |
| 800 | 900 | 200 |
| 1,000 | 1,000 | 200 |
| 1,200 | 1,100 | 200 |
| 1,400 | 1,200 | 200 |
| 1,600 | 1,300 | 200 |
| 1,800 | 1,400 | 200 |
| 2,000 | 1,500 | 200 |

**a.** When income is $1,000,

- A. Saving is 40 and unplanned investment (inventory change) is $ − 200.
- B. Saving is $ − 200 and unplanned investment (inventory change) is $200.
- C. Saving is − $0 and unplanned investment (inventory change) is $200.
- D. Saving is $0 and unplanned investment (inventory change) is $ − 200.

The equilibrium level of output/income is = $☐.

**b.** Based on the above information calculate MPC and MPS. Also calculate the Multiplier.

MPC = ☐. *(Enter your response rounded to two decimal places.)*
MPS = ☐. *(Enter your response rounded to two decimal places.)*

The Multiplier = ☐.

**c.** Suppose there is no change in the level of MPC and the MPS, and planned investment jumps by $300, calculate the change in the equilibrium value of income/output.

The change in equilibrium income/output = $☐.

Answers D

1,400

0.50

0.50

2

600

10. Suppose that planned investment is fixed in an economy. Now if all individuals attempt to save more,

- ○ A. the aggregate saving function does not change; the amount of aggregate saving remains unchanged, but only equilibrium income decreases.
- ○ B. the aggregate saving function shifts up, equilibrium income decreases, but aggregate saving remains the same.
- ○ C. the aggregate saving function shifts up, aggregate saving increases, and equilibrium income decreases.
- ○ D. the aggregate saving function shifts up, equilibrium income decreases, but the effect on aggregate saving depends on the value of MPS.

Answer: B