MACRO Sample Questions
MPC/MPS & AD Shifts

1.

According to the income and consumption schedules shown above, the marginal propensity to consume is

Real Disposable Income	Consumption
$18,000	$19,000
$22,000	$22,000
$26,000	$25,000

(A) 1.33
(B) 0.90
(C) 0.80
(D) 0.75
(E) decreasing as real disposable income increases

2.

An increase in consumer confidence will result in which of the following in the short run?

(A) A rightward shift of the long-run aggregate supply curve
(B) A rightward shift of the short-run aggregate supply curve
(C) A leftward shift of the short-run aggregate supply curve
(D) A rightward shift of the aggregate demand curve
(E) A leftward shift of the aggregate demand curve

3. Assume that the marginal propensity to consume is 0.90. As a result of an increase in the tax rates, the government collects an additional $20 million. What will be the impact on gross domestic product (GDP) ?

(A) GDP will increase by a maximum of $200 million.
(B) GDP will increase by a maximum of $180 million.
(C) GDP will decrease by a maximum of $200 million.
(D) GDP will decrease by a maximum of $180 million.
(E) GDP will decrease by a maximum of $20 million.

4. . In an economy the marginal propensity to consume is 0.90, and gross domestic product (GDP) is $100 billion. If gross private domestic investment declines by $2 billion, then GDP will

(A) decrease by a maximum of $1.8 billion
(B) decrease by a maximum of $2 billion
(C) decrease by a maximum of $20 billion
(D) increase by a maximum of $1.8 billion
(E) increase by a maximum of $20 billion

5.

Assume that the marginal propensity to consume is 0.75, net exports decline by $10 billion, and government spending increases by $20 billion. Given that there is no crowding out, the equilibrium gross domestic product can increase by a maximum of

(A) $7.5 billion
(B) $15 billion
(C) $40 billion
(D) $80 billion
(E) $120 billion

6. Suppose that the economy is in the midst of a recession and government policy makers want to increase aggregate demand by $600 billion. If the economy's marginal propensity to consume is 0.75 and there is no crowding out, the government should do which of the following?

(A) Increase spending by $2,400 billion.
(B) Increase spending by $600 billion.
(C) Increase spending by $150 billion.
(D) Decrease taxes by $150 billion.
(E) Decrease taxes by $600 billion.

7. Recession can be caused by

(A) an increase in the price level
(B) an increase in exports
(C) a decrease in interest rates
(D) a decrease in aggregate demand
(E) a decrease in wages

8. An economy is at full-employment equilibrium. If consumers and firms become more optimistic about future income and profits, which of the following will occur in the short run?

(A) Aggregate demand will shift rightward, increasing real output and decreasing the price level.
(B) Aggregate demand will shift rightward, decreasing real output and increasing the price level.
(C) Aggregate demand will shift rightward, increasing real output and the price level.
(D) Short-run aggregate supply will shift rightward, increasing real output and the price level.
(E) Short-run aggregate supply will shift rightward, decreasing real output and the price level.