

Name:

Weekly Review 8 – Friday 10/29

Bring to class, having attempted as much as possible

Turn in corrected assignment to Blackboard after class

1. (1 point) The CORE textbook uses different variables for the Keynesian Consumption function than we have used in class even though it's the same line. Match the variables we have used before with the variables from the CORE textbook that have the same meaning:

Variables from class lecture slides

C

mpc

Y

$\bar{C}$

Variables from CORE textbook

$C_0$

Y

$C_1$

C

2. (2 points) Match the variables from question 1 with their meaning:

- a) Consumption: \_\_\_\_\_ and \_\_\_\_\_
- b) Income: \_\_\_\_\_ and \_\_\_\_\_
- c) Autonomous Consumption: \_\_\_\_\_ and \_\_\_\_\_
- d) Marginal Propensity to Consume: \_\_\_\_\_ and \_\_\_\_\_

3. Suppose that investment increases in the Keynesian macroeconomic model. What will happen to the aggregate demand curve? (1 point)

- a) The entire aggregate demand curve will shift up.
- b) The entire aggregate demand curve will shift down.
- c) The aggregate demand curve will rotate clockwise.
- d) The aggregate demand curve will rotate counterclockwise.

4. Suppose that investment increases in the Keynesian macroeconomic model. What will happen to the consumption curve? (1 point)

- a) The entire consumption curve will shift up.
- b) The consumption curve will rotate counterclockwise.
- c) The consumption curve will shift up and rotate counterclockwise.
- d) There will be no change to the consumption curve.

5. (1 point) Keynesian Economics suggests...

- a) Laissez-faire policies regulate business cycles
- b) Government spending is an effective policy for economic recovery
- c) Trade benefits all nations when they specialize in their comparative advantage
- d) Business investment is detrimental to local communities

6. (1 point) Suppose that household disposable income rises \$1 billion. If the immediate impact to consumption is an increase of \$800,000,000, what is the marginal propensity to consume in that economy? \_\_\_\_
7. (1 point) Suppose the marginal propensity to consume in an economy is 0.8. In an economy with only consumption and investment, what would be the consumption/investment multiplier in this economy?
- a) 1
  - b) 5
  - c) 10
  - d) 20
8. (1 point) Suppose household autonomous consumption rises \$5 million. The economy has a marginal propensity to consume of 0.8. By how much will Aggregate Demand increase after the multiplier has done its work?
- a) \$10 million
  - b) \$15 million
  - c) \$20 million
  - d) \$25 million
9. (1 point) Suppose an economy had a GDP of \$1 billion last year. Over the past year, investment increased by \$5 million. The marginal propensity to consume in this economy is 0.8. Assuming there were no other changes to the economy (*ceteris paribus*), how much is GDP this year?
- a) \$1,000,000,000
  - b) \$1,025,000,000
  - c) \$1,250,000,000
  - d) \$1,800,000,000