

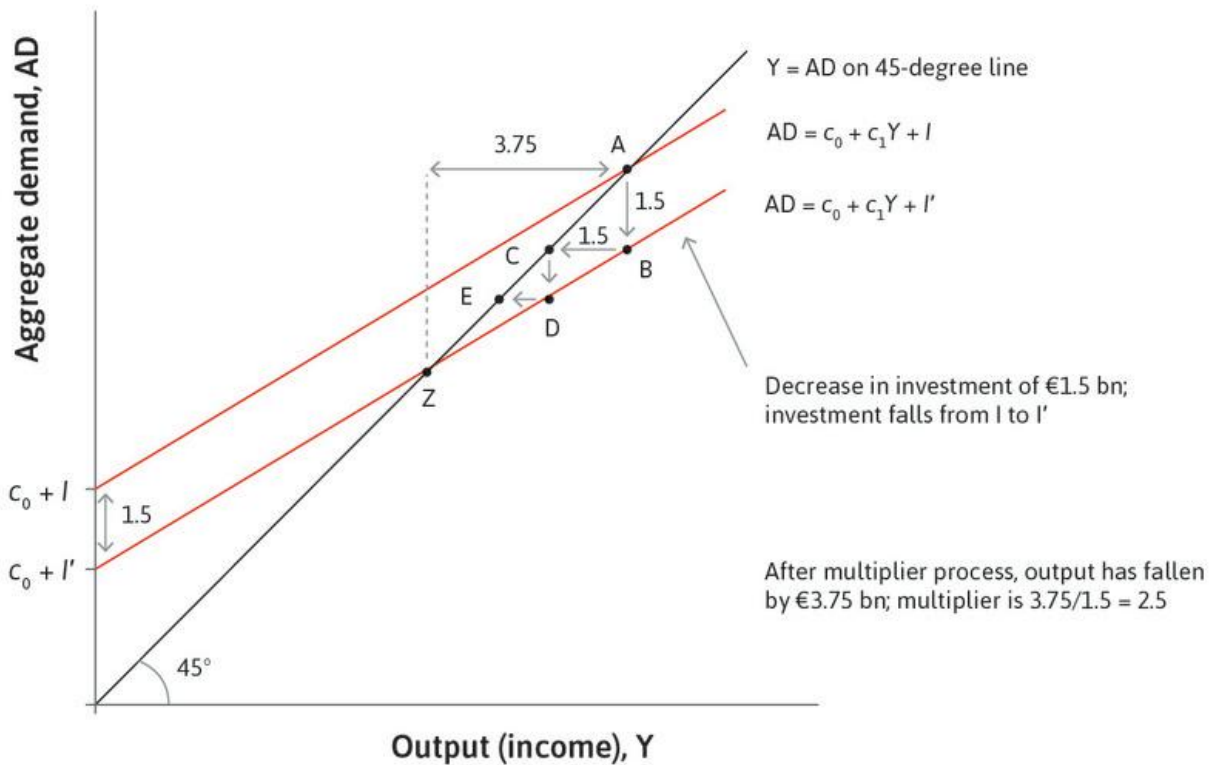
# ECON 2002.01 PROBLEM SET 8

## *Unit 14*

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- ① (OUP-U14-Q3) In the expression for aggregate consumption  $C = C_0 + C_1Y$ ,  $C_1$  is known as: \_\_\_\_\_
- (A) Autonomous consumption.
  - (B) The average propensity to consume.
  - (C) The multiplier.
  - (D) The marginal propensity to consume.
- ② (OUP-U14-Q7) In an economy with no taxation and no external trade, the size of the multiplier depends on: \_\_\_\_\_
- (A) Investment.
  - (B) The current level of aggregate demand.
  - (C) Autonomous consumption.
  - (D) The marginal propensity to consume.
- ③ (OUP-U14-Q10) In the figure shown, a fall in output is caused by a reduction in investment. Which of the following would help restore output to its original level?



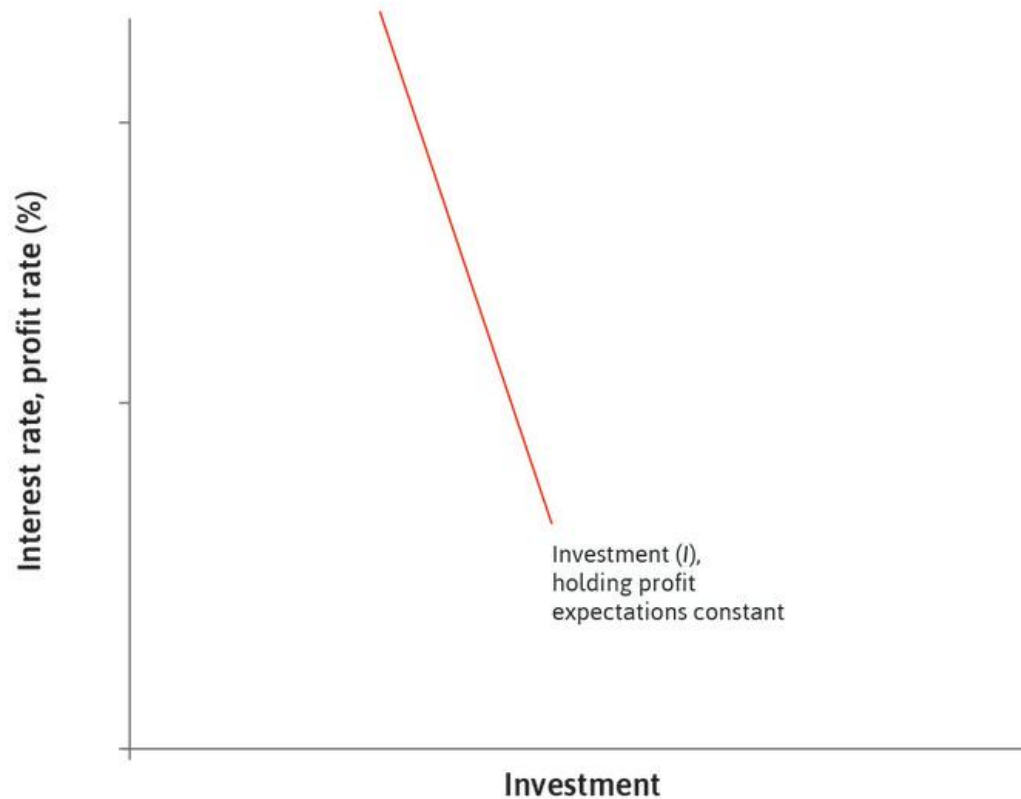
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- (A) A reduction in autonomous consumption.
  - (B) An increase in target wealth.
  - (C) An increase in actual wealth.
  - (D) A tightening of credit conditions.

④ (OUP-U14-Q12) In an economy where the MPC is 0.7, the proportional tax rate is 0.25 and the marginal propensity to import is 0.2, the multiplier will be:

*Hint:* There's both MPC, proportional tax rate and MPI needs to be considered

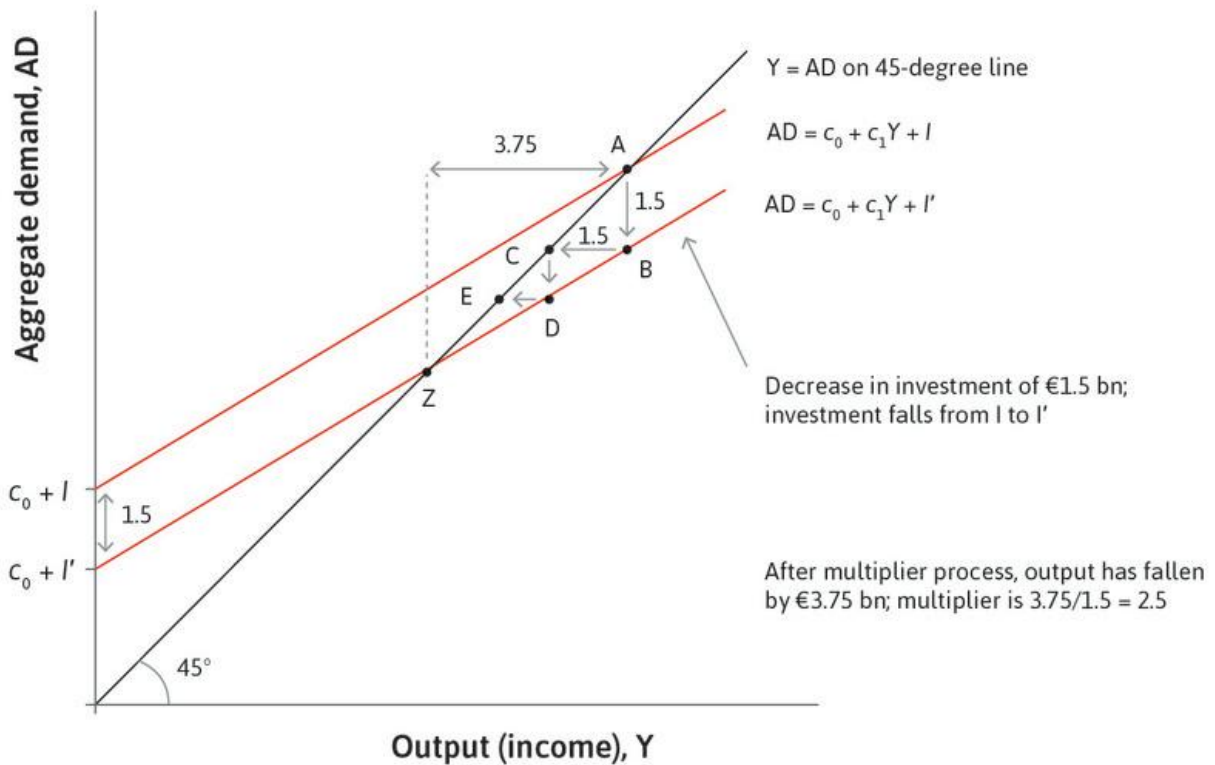
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- (A) 0.675
  - (B) 2.1
  - (C) 1.48
  - (D) 2.35

- ⑤ (OUP-U14-Q15) The central bank announces a rise in the official interest rate to reduce the rate of inflation. Looking at the figure shown, ceteris paribus, the aggregate investment function in these circumstances is likely to:



- \_\_\_\_\_
- (A) Become flatter.  
(B) Become steeper.  
(C) Shift to the left.  
(D) Remain unchanged.
- ⑥ (OUP-U14-Q22) Cuts in public expenditure do not guarantee a reduction in the government's deficit because: \_\_\_\_\_
- (A) Firms will try to pay less tax.  
(B) Aggregate demand will fall, reducing government revenue.  
(C) Aggregate demand falls, and firms invest less.  
(D) There is a fall in autonomous consumption.

- ⑦ (OUP-U14-Q24) In an economy with unutilised resources, the government stimulates aggregate demand by increasing its spending. The effect on output and employment will be greater if: \_\_\_\_\_
- (A) The economy has a high propensity to import.
  - (B) The spending is financed by additional taxation.
  - (C) Its trading partners undertake a similar policy.
  - (D) The central bank simultaneously tightens monetary policy.
- ⑧ (OUP-U14-Q11) A multiplier of 3 or above would be considered exceptionally high for most modern economies. Which of the following statements gives the most complete explanation for this fact? \_\_\_\_\_
- (A) The national accounts overstate consumption.
  - (B) Credit is probably easier to obtain than we think.
  - (C) We have overlooked the effect of taxation.
  - (D) We have overlooked the effect of taxation and external trade.
- ⑨ (OUP-U14-Q16) The figure shows a downward shift of the aggregate demand curve, reducing the level of output from A to Z. Suppose that we begin again at A and that this is a full-employment level of output. An increase in aggregate demand in these circumstances will most likely cause:



- (A) An increase in employment.
- (B) A fall in wages.
- (C) An increase in output.
- (D) A rise in the general level of prices.

⑩ (OUP-U14-Q18) The 'paradox of thrift' refers to the fact that: \_\_\_\_\_

- (A) If we all save more, aggregate income will fall.
- (B) The wealthier I become, the more tax I have to pay.
- (C) Saving is a waste of time.
- (D) Inflation erodes the value of savings.