Chapter 30
Aggregate Expenditure

30.1 Expenditure Plans and Real GDP

1) At full employment, real GDP equals _____ and the unemployment rate equals _____.
    A) potential GDP; the natural unemployment rate
    B) nominal GDP; zero
    C) potential GDP; zero
    D) nominal GDP; the natural unemployment rate
    E) potential GDP; the inflation rate

Answer: A
Topic: Review: full employment
Skill: Level 1: Definition
Objective: Checkpoint 30.1
Author: DMC

2) Potential GDP and the natural unemployment rate are determined by
    A) the price level.
    B) real factors.
    C) inflation.
    D) nominal factors.
    E) money factors.

Answer: B
Topic: Review: full employment
Skill: Level 1: Definition
Objective: Checkpoint 30.1
Author: DMC

3) At full employment
    i.   real GDP equals potential GDP.
    ii.   the unemployment rate equals the natural unemployment rate.
    iii. changes in the quantity of money change the price level.

    A) i only.

    B) ii only.

    C) iii only.

    D) ii and iii.

    E) i, ii, and iii.

Answer: E
Topic: Review: full employment
Skill: Level 1: Definition
Objective: Checkpoint 30.1
Author: TPS

4) If the economy is not at full employment, then
    A) monetary and real forces interact to influence the unemployment rate.

    B) real forces only determine the unemployment rate and monetary forces have no
       impact.

    C) monetary forces only determine the unemployment rate and real forces have no
       impact.

    D) neither monetary nor real forces determine the unemployment rate.

    E) real forces determine the unemployment rate in the short run and monetary forces
       determine it in the long run.

Answer: A
Topic: Review: full employment
Skill: Level 1: Definition
Objective: Checkpoint 30.1
Author: TPS

5) Which of the following variables is fixed in the aggregate expenditure model?
    A) price level

    B) consumption

    C) output

    D) investment

    E) real GDP

Answer: A
Topic: Fixed price level
Skill: Level 1: Definition
Objective: Checkpoint 30.1
Author: NAU

6) In order to analyze the factors that determine the quantity of real GDP demanded, in the aggregate expenditure model we assume that
   A) the unemployment level is fixed.
   B) the inflation rate is assumed to equal the natural unemployment rate.
   C) the natural rate of unemployment is fixed.
   D) the price level is fixed.
   E) real GDP does not change.

Answer: D
Topic: Fixed price level
Skill: Level 1: Definition
Objective: Checkpoint 30.1
Author: DMC

7) What is the key difference between the aggregate expenditure model and the aggregate demand/aggregate supply model?
   A) the aggregate expenditure model examines monetary policy whereas the aggregate demand/aggregate supply model does not
   B) monetary and real factors interact in the aggregate demand/aggregate supply model
   C) the aggregate expenditure model assumes that the price level is fixed
   D) the aggregate demand/aggregate supply model assumes that the price level is fixed
   E) the aggregate expenditure model assumes that real GDP is fixed

Answer: C
Topic: Fixed price level
Skill: Level 1: Definition
Objective: Checkpoint 30.1
Author: TPS

8) The aggregate expenditure model explains
   A) adjustments in prices.
   B) changes in potential GDP.
   C) changes in the interest rate.
   D) what determines the quantity of real GDP demanded.
   E) what determines the quantity of real GDP supplied.

Answer: D
Topic: Aggregate expenditure model
Skill: Level 1: Definition
Objective: Checkpoint 30.1
Author: NAU

9) The aggregate expenditure model explains changes in
   A) the price level while holding the level of real GDP constant.
   B) real GDP and the price level simultaneously.
   C) real GDP while holding the price level constant.
   D) total spending in the context of falling prices.
   E) the inflation rate while holding the price level constant.

Answer: C
Topic: Aggregate expenditure model
Skill: Level 1: Definition
Objective: Checkpoint 30.1
Author: MR

10) Aggregate expenditure is equal to
    A) $C + I + G + NX$.
    B) $C + I + G - NX$.
    C) $C - I - G - NX$.
    D) $C + I - G - NX$.
    E) $C - I - G + NX$.

Answer: A
Topic: Aggregate expenditure
Skill: Level 1: Definition
Objective: Checkpoint 30.1
Author: DMC

11) Aggregate expenditure is equal to
    A) $C + I + G$.
    B) $C + I + G - NX$.
    C) $C - I - G - NX$.
    D) $C + I + G + NX$.
    E) $Y + C + I + G + NX$.

Answer: D
Topic: Aggregate expenditure
Skill: Level 1: Definition
Objective: Checkpoint 30.1
Author: NAU

12) If aggregate planned expenditure exceeds GDP, then

    A) firms' inventories are larger than planned.

    B) the change in firms' inventories is the planned change.

    C) firms' inventories are smaller than planned.

    D) aggregate income is less than GDP.

    E) firms' have no inventories.

Answer: C
Topic: Unplanned Inventories
Skill: Level 2: Using definitions
Objective: Checkpoint 30.1
Author: DMC

13) If a firm accumulates unwanted inventories, then it

    A) will increase its production.

    B) must hire more workers.

    C) has actual investment that is less than its planned investment.

    D) will decrease its production.

    E) has actual investment equal to its planned investment.

Answer: D
Topic: Unplanned Inventories
Skill: Level 2: Using definitions
Objective: Checkpoint 30.1
Author: DMC

14) If aggregate planned expenditure is greater than GDP, then

    A) inventory investment is smaller than planned.

    B) inventory investment is larger than planned.

    C) production is too high.

    D) a recession will result.

    E) the consumption function will shift downward to restore the equilibrium.

Answer: A
Topic: Unplanned Inventories
Skill: Level 1: Definition
Objective: Checkpoint 30.1
Author: NAU

15) If Intel produced $12 million worth of computer microchips, planning on adding $2 million of computer microchips to its inventory, and the quantity it sold was equal to $11 million, then Intel's

    A) actual inventories are smaller than planned.

    B) actual inventories exceed planned inventories by $1 million.

    C) production decreases.

    D) actual inventories are larger than planned.

    E) actual inventories are equal to planned inventories.

Answer: A
Topic: Unplanned Inventories
Skill: Level 2: Using definitions
Objective: Checkpoint 30.1
Author: DMC

16) Computerama, a company that sells computers, manufactures $100,000 worth of computers, planning to add $10,000 of computers to its inventory. If actual expenditures on its computers are $90,000, then the change in Computerama's inventory is _____ what was planned.

    A) greater than

    B) equal to

    C) less than

    D) not comparable to

    E) More information is needed to determine whether the change in Computerama's inventory is greater than, less than, or equal to what was planned.

Answer: B
Topic: Unplanned Inventories
Skill: Level 2: Using definitions
Objective: Checkpoint 30.1
Author: NAU

17) Computerama, a company that sells computers, manufactures $100,000 worth of computers, planning to add $10,000 of computers to its inventory. If actual expenditures on its computers are $80,000 then the change in Computerama's inventory is _____ what was planned.

   A) greater than

   B) equal to

   C) less than

   D) not comparable to

   E) More information is needed to determine whether the change in Computerama's inventory is greater than, less than, or equal to what was planned.

Answer: A
Topic: Unplanned Inventories
Skill: Level 2: Using definitions
Objective: Checkpoint 30.1
Author: NAU

18) Computerama, a company that sells computers, manufactures $100,000 worth of computers, planning to add $10,000 of computers to its inventory. If actual expenditures on its computers are $110,000 then the change in Computerama's inventory is _____ what was planned.

   A) greater than

   B) equal to

   C) less than

   D) not comparable to

   E) More information is needed to determine whether the change in Computerama's inventory is greater than, less than, or equal to what was planned.

Answer: C
Topic: Unplanned Inventories
Skill: Level 2: Using definitions
Objective: Checkpoint 30.1
Author: NAU

19) In the aggregate expenditure model, the actual level of _____ might not equal its planned level.
   i.   consumption
   ii. investment
   iii. government expenditures on goods and services
   A) i only.
   B) ii only.
   C) iii only.
   D) ii and iii.
   E) i and iii.

Answer: B
Topic: Planned investment
Skill: Level 1: Definition
Objective: Checkpoint 30.1
Author: NAU

20) If actual investment is less than planned investment, then
   A) aggregate planned expenditure exceeds real GDP.
   B) aggregate planned expenditure is less than real GDP.
   C) actual consumption is less than planned consumption.
   D) firms are producing too much output.
   E) actual consumption is greater than planned consumption.

Answer: A
Topic: Actual and planned investment
Skill: Level 1: Definition
Objective: Checkpoint 30.1
Author: NAU

21) The components of aggregate expenditure that are not influenced by GDP are known as
   A) unplanned expenditure.
   B) induced expenditure.
   C) planned expenditure.
   D) autonomous expenditure.
   E) fixed expenditure.

Answer: D
Topic: Autonomous expenditure
Skill: Level 1: Definition
Objective: Checkpoint 30.1
Author: DMC

22) Autonomous expenditure is expenditure that is

    A) influenced by real GDP.

    B) influenced by the interest rate.

    C) not influenced by real GDP.

    D) not influenced by the interest rate.

    E) not influenced by the price level.

Answer: C
Topic: Autonomous expenditure
Skill: Level 1: Definition
Objective: Checkpoint 30.1
Author: NAU

23) The quantity of U.S. exports is determined by

    A) U.S. GDP.

    B) U.S. consumption expenditure.

    C) political factors.

    D) aggregate incomes in the rest of the world.

    E) U.S. aggregate expenditure.

Answer: D
Topic: Autonomous expenditure
Skill: Level 1: Definition
Objective: Checkpoint 30.1
Author: DMC

24) Induced expenditure is any expenditure that

    A) is fixed for all levels of real GDP.

    B) is fixed for all price levels.

    C) is fixed for all levels of the interest rate.

    D) changes when real GDP changes.

    E) changes when the interest rate changes.

Answer: D
Topic: Induced expenditure
Skill: Level 1: Definition
Objective: Checkpoint 30.1
Author: NAU

25) Which of the following increases as a result of an increase in real GDP?
   i.   autonomous expenditure
   ii.   induced expenditure
   iii. potential GDP

   A) i only.

   B) ii only.

   C) iii only.

   D) ii and iii.

   E) i, ii, and iii.

   Answer: B
   Topic: Induced expenditure
   Skill: Level 1: Definition
   Objective: Checkpoint 30.1
   Author: TPS

26) Which aggregate expenditure categories are influenced by the level of real GDP?

   A) investment and government expenditures on goods and services

   B) consumption and investment

   C) imports and exports

   D) consumption and imports

   E) consumption and government expenditures on goods and services

   Answer: D
   Topic: Induced expenditure
   Skill: Level 1: Definition
   Objective: Checkpoint 30.1
   Author: NAU

27) Disposable income equals aggregate income

   A) minus net taxes.

   B) minus saving.

   C) minus saving and minus net taxes.

   D) plus saving minus net taxes.

   E) plus net taxes.

   Answer: A
   Topic: Disposable income
   Skill: Level 1: Definition
   Objective: Checkpoint 30.1
   Author: NAU

28) The consumption function shows the relationship between

    A) consumption expenditure and disposable income.

    B) inventory levels and real GDP.

    C) consumption expenditure and planned income.

    D) consumption expenditure and planned inventory investment.

    E) consumption expenditure and the price level.

Answer: A
Topic: Consumption function
Skill: Level 1: Definition
Objective: Checkpoint 30.1
Author: DMC

29) A movement along the consumption function shows the change in consumption expenditure as a result of a change in

    A) disposable income.

    B) the price level.

    C) the interest rate.

    D) saving.

    E) net taxes.

Answer: A
Topic: Consumption function
Skill: Level 1: Definition
Objective: Checkpoint 30.1
Author: NAU

30) If disposable income decreases during a recession, there is

    A) a downward shift in the consumption function.

    B) movement downward along the consumption function.

    C) no change in consumption expenditures.

    D) an upward shift in the consumption function.

    E) movement upward along the consumption function.

Answer: B
Topic: Consumption function
Skill: Level 2: Using definitions
Objective: Checkpoint 30.1
Author: TPS

31) As disposable income ____ planned consumption expenditure ____.

    A) increases; decreases

    B) decreases; increases

    C) decreases; remains the same, since it is autonomous expenditure

    D) increases; increases

    E) increases; changes only if net taxes also change

Answer: D
Topic: Consumption function
Skill: Level 2: Using definitions
Objective: Checkpoint 30.1
Author: DMC

32) As a household's disposable income increases, its autonomous expenditures ____ and its induced expenditures ____.

    A) increase; do not change

    B) decrease; do not change

    C) do not change; increase by a smaller amount than the increase in income

    D) do not change; increase by an amount equal to the increase in income

    E) increase; increase by a smaller amount than the increase in income

Answer: C
Topic: Consumption function
Skill: Level 2: Using definitions
Objective: Checkpoint 30.1
Author: TPS

33) The consumption expenditure when disposable income is zero is known as

    A) zero saving.

    B) zero consumption.

    C) autonomous consumption.

    D) induced consumption.

    E) base consumption.

Answer: C
Topic: Consumption function, autonomous consumption
Skill: Level 1: Definition
Objective: Checkpoint 30.1
Author: DMC

34) The amount of consumption expenditure that takes place when income is zero is

A) equal to zero.

B) equal to saving.

C) called autonomous consumption.

D) called induced consumption.

E) called zero–based consumption.

Answer: C
Topic: Consumption function, autonomous consumption
Skill: Level 1: Definition
Objective: Checkpoint 30.1
Author: NAU

35) If your planned consumption expenditure is $600 per month and your disposable income is $500 per month, your

A) autonomous consumption must be zero per month.

B) dissaving is $100 per month.

C) autonomous consumption is -$100 per month.

D) saving is $100 per month.

E) induced consumption is $600.

Answer: B
Topic: Consumption function, saving
Skill: Level 2: Using definitions
Objective: Checkpoint 30.1
Author: DMC

36) When consumption expenditure is _____ disposable income, saving is _____.

A) less than; positive

B) greater than; positive

C) equal to; positive

D) equal to; negative

E) less than; negative

Answer: A
Topic: Consumption function, saving
Skill: Level 1: Definition
Objective: Checkpoint 30.1
Author: DMC

37) On a graph of the consumption function, where the consumption function crosses the 45 degree line,

   A) disposable income is zero.

   B) the maximum level of disposable income is earned.

   C) there is no saving and no dissaving.

   D) there are no tax payments.

   E) induced consumption equals zero.

Answer: C
Topic: Consumption function, saving
Skill: Level 2: Using definitions
Objective: Checkpoint 30.1
Author: TPS

38) On a graph of the consumption function, where the consumption function is below the 45 degree line, there is

   A) saving.

   B) dissaving.

   C) zero disposable income.

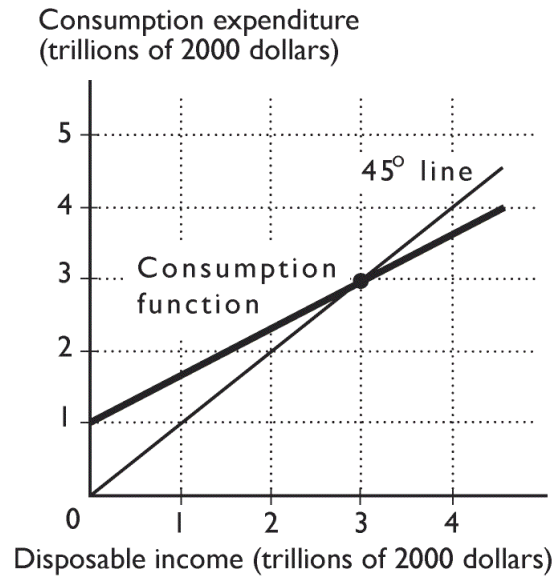   D) maximum disposable income.

   E) no induced consumption.

Answer: A
Topic: Consumption function, saving
Skill: Level 2: Using definitions
Objective: Checkpoint 30.1
Author: TPS

Consumption expenditure
(trillions of 2000 dollars)

39) The figure above shows a nation's consumption function. The amount of autonomous consumption expenditure is

   A) $0.

   B) $1 trillion.

   C) $2 trillion.

   D) $3 trillion.

   E) more than $3 trillion.

Answer: B
Topic: Consumption function, autonomous consumption
Skill: Level 3: Using models
Objective: Checkpoint 30.1
Author: NAU