Topic 7. AN AGGREGATE SUPPLY – AGGREGATE DEMAND MODEL

7.1 Aggregate demand: consumption, investment, public expenditure and net exports
7.2 Aggregate supply: determinants
7.3 The determination of equilibrium: income and price level

BASIC CONCEPTS

Aggregate demand
Consumption spending
Consumption function
APC and MPC
Saving function
APS and MPS
Investment spending
Determinants of investment spending
Government spending (components)
Exportations and Importations
Aggregate supply
Equilibrium: income and price
The multiplier

MULTIPLE-CHOICE QUESTIONS

1. The MPC is:
   a. The consumption divided by the income
   b. Always positive and higher than one
   c. Equal to the APC
   d. No answer is right

2. When MPC is 0.6:
   a. For each euro more to the disposable income, consumption rises in 60 euro cents.
   b. For each euro more to the disposable income, saving rises in 40 euro cents.
   c. The 60% of the rise in the disposable income goes to consumption
   d. All the answers are right

3. The investment spending function shifts to the right if:
   a. Interest rate rises
   b. Interest rate falls
   c. Business expectations improves
   d. MPC falls

4. An increase in the MPC makes the aggregate demand curve:
   a. Shifts to the left
   b. Shifts to the right
   c. Has no effect
   d. It causes a movement along the curve

5. As higher the MPS:
   a. Higher the MPC
   b. Higher the investment spending
   c. Lower the MPC
   d. All the answers are right

6. A decrease in the MPC may cause:
   a. A decrease in the MPS
   b. An increase in exports
   c. An increase in the MPS
   d. All the answers are right

7. MPC plus MPS is equal to:
   a. One, always
   b. Any positive value
   c. One, when the economy is in the full employment situation
   d. One, when the unemployment rate is too high

SOLUTIONS TO MULTIPLE-CHOICE QUESTIONS

01. d

02. d

03. c

04. b

05. c

06. c

07. a