1. Which one of the following events would most likely precede an economic slowdown?
   a. Inventory levels rise.   b. Inventory levels fall.
   c. Firms see a need to expand their productive capacities.   d. Projections of future GDP growth are revised upwards.

2. Current consumption spending is most strongly determined by
   a. inventory levels.   b. investment levels.
   c. household income.   d. interest rates.

3. When the consumption function is plotted on a graph, the intercept on the vertical axis indicates
   a. the marginal propensity to consume.   b. autonomous consumption spending.
   c. disposable income.   d. the equilibrium level of income.

4. When the consumption function is plotted on a graph, the horizontal axis measures
   a. the interest rate.   b. investment spending.
   c. the level of inventories.   d. disposable income.

5. The position of the aggregate consumption function is determined by
   a. the interest rate and the money supply.   b. the size of the labor force and the ratio of women to men in the labor force.
   c. expected future income and the level of household wealth.   d. the rate of inflation and the level of disposable income.

6. A decline in investment spending eventually leads to
   a. a decline in consumption spending.   b. an increase in autonomous consumption.
   c. an increase in the value of the multiplier.   d. a higher level of equilibrium GDP.

7. A firm that finances its investment by using its own retained earnings
   a. incurs zero opportunity cost.   b. incurs an opportunity cost equal to the market interest rate.
   c. incurs an opportunity cost more than the market interest rate.   d. incurs an opportunity cost less than the market interest rate.

8. Investment spending expands when
   a. interest rates rise.   b. firms expect lower future sales.
   c. the current level of productive capacity is beyond what firms expect to use.   d. the current level of productive capacity falls short of what firms expect to use.

9. A firm that builds up inventories is
   a. also likely to expand its productive capacity.   b. decreasing the level of autonomous consumption.
   c. engaging in investment.   d. slowing the rate of GDP growth.

10. A firm is most likely to experience unplanned inventory accumulation when
    a. interest rates are high.   b. interest rates are low.
    c. there is an unexpected decrease in aggregate demand.   d. there is an unexpected increase in aggregate demand.

11. Why was there a surge in housing starts during the years 2000 to 2006?
    a. Low interest rates led to a large increase in new home construction.
    b. Low interest rates discouraged purchases of existing homes.
    c. Healthy consumer spending resulted in most of output being devoted to consumption items, rather than to investment goods.
    d. A loss of business confidence meant that firms scaled back their production plans.

12. Unplanned inventory accumulation will be positive when
    a. sales exceed expectations.   b. sales fall short of expectations.
    c. interest rates fall.   d. interest rates rise.
13. The slope of the aggregate consumption function is equal to
   a. the marginal propensity to consume (MPC).  
   b. 1 - MPC.  
   c. MPC - 1.  
   d. 1/MPC.

14. When the economy is in income-expenditure equilibrium,
   a. the level of disposable income is equal to the level of autonomous consumption.
   b. aggregate spending on final goods and services exceeds aggregate output.
   c. aggregate spending on final goods and services falls short of aggregate output.
   d. there is no unplanned inventory accumulation.

15. Output expands when
   a. unplanned inventory investment is positive.  
   b. sales are less than expected.  
   c. planned aggregate spending is greater than GDP.  
   d. planned aggregate spending is less than GDP.

16. When GDP is greater than the equilibrium level of income-expenditure,
   a. income rises.  
   b. unplanned inventories accumulate.  
   c. inventories are depleted.  
   d. GDP rises.

17. When planned aggregate spending does NOT equal current GDP, there is a self-adjustment process that operates through
   a. interest rates.  
   b. inventories.  
   c. changes in wages.  
   d. changes in the price level.

18. If the aggregate consumption function shifts up, the level of income-expenditure equilibrium GDP
   a. will increase by an amount more than the increase of the consumption function.
   b. will increase by an amount less than the increase of the consumption function.
   c. will decrease by an amount more than the increase of the consumption function.
   d. will decrease by an amount less than the increase of the consumption function.

19. The paradox of thrift refers to the fact that
   a. when individuals save, they cause the price level to rise.
   b. when individuals spend money, they cause unemployment.
   c. when individuals save, they cause a slowdown in economic activity.
   d. when GDP increases, it causes unemployment.

20. The amount of the change in real GDP arising from an initial change in aggregate spending is equal to
   a. the marginal propensity to consume.
   b. the value of the multiplier.
   c. the value of the multiplier times the equilibrium level of GDP.
   d. the value of the multiplier times the initial change in aggregate spending.