Multiple Choice
*Identify the letter of the choice that best completes the statement or answers the question.*

1. The marginal propensity to consume is
   a. total disposable income (DI) divided by total consumption (C): DI/C.
   b. the change in consumption divided by the change in disposable income: ΔC/ΔDI
   c. total consumption divided by total disposable income: C/DI.
   d. the change in disposable income divided by the change in consumption: ΔDI/ΔC.

2. According to the Keynesian expenditure model, if planned inventory levels are too low, then we should expect businesses to
   a. decrease prices.
   b. decrease output.
   c. lay off workers.
   d. increase output.

3. Suppose that actual real GDP is less than potential real GDP. Then a(n) _____________ gap exists.
   a. inflationary
   b. recessionary
   c. classical
   d. Keynesian

4. The multiplier principle is built on the premise that one person's spending is another person's
   a. debt.
   b. obligation.
   c. income.
   d. saving.

5. According to Keynes, a primary reason for the existence of inflationary and deflationary gaps is that
   a. government does most of the nation's saving.
   b. saving and investing are done by people with no social conscience.
   c. businesses do most of the nation's saving.
   d. saving and investing are done by different groups.

6. The MPC in the U.S. economy has been estimated to be near 0.90. If so, then the value of the oversimplified expenditure multiplier is
   a. 0.9.
   b. 0.1.
   c. 1.9.
   d. 10.0.
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Answer Section

MULTIPLE CHOICE

1. B
2. D
3. B
4. C
5. D
6. D