Ch12- -Consumption, Real GDP and the Multiplier

1. What is the Keynesian assumption about the placement of the short run aggregate supply curve?

2. What are four simplifying assumptions of the Keynesian model?

3. With these simplifying assumptions what is real disposable income equal to?

4. What are the two main activities that a person can do with a dollar of income?

5. What does it mean to say that SAVING is a **flow** concept? Explain in your own words:

6. What does it mean to say that SAVINGS is a **stock** concept? Explain in your own words.

7. Consumption and Savings = _____

8. Savings = _____

9. In economic analysis what does **investment** refer to?

10. What is the assumption about the rate of interest in the classical model?

11. How is Keynes view of the interest rate different?

12. What does Keynes argue that saving and consumption depend primarily upon?

13. What is the **consumption function**?

14. What is dissaving? When does this happen?

15. What is the 45-degree reference line?

16. What is the point where real disposable income intersects the 45-degree line?

17. What is autonomous consumption?

18. What are the APC and APS?

19. What is the equation for each?

20. What does marginal mean in the marginal propensity to consume and marginal propensity to save?

21. Write the equation for each.

22. APC + APS = _____

23. 1= MPC + _____

24. What are some of the things that can cause the consumption function to shift?

25. What are some of the factors that influence planned investment?

26. How does the increase or decrease in the interest rate affect planned real investment?

27. What are some of the factors that can shift the investment curve?

28. Why is real disposable income lower than real GDP?

29. About how much lower has real disposable income been than real GDP in recent years?

30. What is autonomous investment?

31. How do we add the investment function to our model?

32. At what point is the equilibrium amount of investment?

33. What happens when investment is above savings?

34. What role do inventories play in the model?

35. According to your text what percentage of national income is Government spending?

36. Why is government spending considered autonomous? What determines how much we spend on government?

37. What does the Keynesian model assume about the impact of taxation to pay for government expenditures on consumption?

38. How is the foreign sector accounted for in the Keynesian model?

39. According to the Keynesian model what is the equilibrium point for Real National Income per year?

40. What changes occur when total real planned expenditures are different from Real GDP?

41. According to your text, what is the definition of the multiplier?

42. What is the multiplier formula?

43. The larger the marginal propensity to save, _____ .

44. The larger the marginal propensity to consume, _____ .

45. What is the significance of the multiplier?

46. How do changes in the price level, mute the power of the multiplier?

47. How do the shape of the SRAS in the classical model, and the shape of the Keynesian SRAS differ? Show how this changes the effect of the multiplier?

48. Your book identifies three ways that the Real GDP increases with higher AD, but the higher price levels associated with higher levels of AD leads decreases in Real GDP as well. Identify these three ways: