



Skoolumy

**CAMBRIDGE A LEVEL ECONOMICS TOPICAL
MULTIPLE CHOICE QUESTIONS**

MULTIPLIER, APS, MPS, APC & MPC

PAST QUESTIONS

1 What is a necessary assumption of the Keynesian multiplier model?

- A increasing average propensity to save
- B flexible costs and prices
- C full employment of resources
- D open economies

2 Country X has a marginal propensity to consume (MPC) of 0.7. Its marginal propensity to save (MPS), marginal rate of taxation (MRT) and marginal propensity to import (MPM) are each 0.1.

What is likely to lead to the biggest increase in the national income multiplier?

- A a 5% increase in the MPC together with a 5% fall in the MRT
- B a 5% increase in the MPM together with a 5% fall in the MRT
- C a 5% increase in the MPS together with a 5% fall in the MPM
- D a 5% increase in the MRT together with a 5% fall in the MPS

3 Which condition will produce the highest value of the national income multiplier in an open economy with a government sector?

- A high average and marginal tax rates
- B high marginal propensity to save
- C low level of autonomous consumption
- D low marginal propensity to import

4 What does the accelerator principle state?

- A Consumption is a function of the rate of change of income.
- B Income is a function of the rate of change of investment.

C Investment is a function of the rate of change of income.

D Investment is a function of the rate of interest.

5 In a closed economy with no government sector, the multiplier shows the impact of a change in

A consumption on investment.

B investment on national income.

C national income on consumption.

D national income on investment.

6 What would not exist in a free-market, open economy?

A autonomous investment

B household saving

C import spending

D indirect taxation

7 The table shows an individual's planned consumption at different levels of income.

income (\$)	100	200	300	400	500
consumption (\$)	140	220	300	380	460

What can be concluded about changes in the marginal propensity to consume (MPC) and average propensities to consume (APC) as income rises?

	MPC	APC
A	constant	constant
B	constant	falling
C	falling	constant
D	falling	falling

8 An increase in which factor will cause a decrease in investment spending?

A business confidence

B company profits

C interest rates

D national income

9 In a closed economy, the marginal propensity to save is 0.1 and the marginal propensity to pay taxes is also 0.1. These values are constant and do not vary with the level of income.

What will be the increase in national income if there is an injection of \$100 million into the circular flow?

A \$1000 million

B \$500 million

C \$100 million

D \$80 million

10 What describes the multiplier process, as it operates within a closed economy with no government sector?

A Changes in National Income determine the level of investment.

B The level of consumption depends on the level of National Income.

C The levels of consumption and investment together determine the level of National Income.

D When investment changes, there will be a greater change in equilibrium National Income.

11 A consumer has an income of \$1000 per week. The consumer spends 80% of this on goods and services.

Following an increase in the consumer's income to \$1200 per week, consumption increases to \$900 per week.

Which statement is correct?

A The average propensity to consume does not change.

B The initial average propensity to consume is 5.

C The marginal propensity to consume is 0.5.

D The marginal propensity to consume is 2.

12 What is the basic assumption underlying the accelerator theory?

A Investment depends on the level of business confidence.

B Investment depends on the level of savings.

C Investment depends on the rate of change in national income.

D Investment depends on the rate of change of interest rates.

13 In an economy, the marginal propensity to consume is 0.2, the marginal propensity to save is 0.3, the marginal propensity to tax is 0.3 and the marginal propensity to import is 0.2 at all levels of income.

What would be the most likely consequence of an increase in government expenditure of \$1000m?

A Import expenditure would increase by \$200m.

B Import expenditure would increase by \$1000m.

C Tax revenues would increase by \$75m.

D Tax revenues would increase by \$375m.

14 In a closed economy with no government there is an initial equilibrium level of national income of \$500 billion. The economy's households always spend a constant fraction of every \$1 of income they receive. When investment spending increases by \$20 billion the economy moves to a new equilibrium level of national income of \$600 billion.

What is the marginal propensity to consume of the economy's households?

A 0.20 B 0.80 C 0.83 D 1.00

15 In an economy operating below full employment, which combination of changes will definitely result in an increase in national income?

A a fall in the rate of taxation together with a rise in the saving rate

B a rise in government expenditure together with a fall in the propensity to import

C a rise in investment expenditure together with a rise in the rate of taxation

D a rise in the propensity to save together with a rise in exports

MARK SCHEME

1 A

2 A

3 D

4 C

5 B

6 D

7 B

8 C

9 B

10 D

11 C

12 C

13 D

14 B

15 B