

1. Chris earns \$1,500 per week and spends \$1,000 per week on living expenses, puts \$200 in a savings account, and buys \$300 worth of shares in a stock mutual fund. Chris's saving is _____ and Chris's saving rate is _____.

- A. \$200; 13.3%
- B. \$200; 20%
- C. \$300; 20%
- D. \$500; 33.3%

2. Jordan has the following assets and liabilities:

Two cars	\$ 10,000
House	\$200,000
Mortgage	\$100,000
Cash	\$ 1,000
Car loans	\$ 3,000
Checking account balance	\$ 2,000
Credit card balance	\$ 1,000

Assets: $10,000 + 200,000 + 1,000 + 2,000$

Jordan's wealth is _____, the value of Jordan's assets is _____ and the value of Jordan's liability is _____.

- A. \$107,000; \$213,000; \$100,000
- B. \$109,000; \$213,000; \$104,000
- C. \$111,000; \$213,000; \$100,000
- D. \$213,000; \$317,000; \$104,000

3. Which of the following is a flow?

- A. Saving
- B. Investment
- C. Consumption
- D. Income
- E. All of the above.

4. If Dylan saves \$50 per week, then Dylan's _____ will increase by \$50 per week.

- A. investment
- B. consumption
- C. taxes
- D. wealth

5. Crowding out is the tendency for increased government deficits to:

- A. reduce investment spending.
- B. increase investment spending.
- C. reduce consumption spending.
- D. increase consumption spending.

6. If total government tax collections equal \$200 billion, transfer payments equal \$75 billion, and government interest payments equal \$10 billion, then net taxes equal:

- A. \$115 billion.
- B. \$125 billion.
- C. \$190 billion.
- D. \$275 billion.

7. You are given the following information about the economy:

Consumption	8000
Investment	1,000
Government purchases	1,000
Net exports	0
Government transfers and interest payments	500
Government tax collections	1,700

$$Pr = Y - T - C$$

$$Pubs = T - G$$

$$Y = C + I + G + NX$$

$$Y = 8000 + 1000 + 1000$$

$$Y = 10,000$$

Private saving is _____; public saving is _____; and national saving is _____.

- A. 800; 200; 600
- B. 800; 200; 1,000
- C. 1,000; 800; 1,000
- D. 1,500; 700; 2,700

8. Fred and Wilma just had a baby girl and want to make sure they save enough in the future to send her to college. This is an example of the _____ motive for saving.

- A. life-cycle
- B. bequest
- C. private
- D. precautionary

9. To the extent that households are target savers, who save to reach a specific goal, an increase in the interest rate _____ household saving and a decrease in the interest rate _____ household saving.

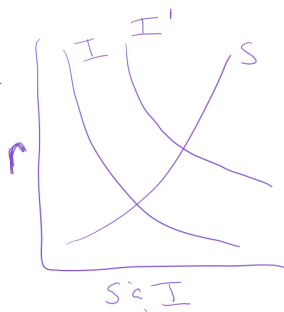
- A. increases; decreases
- B. decreases; increases
- C. does not affect; increases
- D. increases; does not affect

10. The value of the marginal product of new capital increases when the:

- A. price of new capital goods increases.
- B. real interest rate increases.
- C. the price of the good the firm produces decreases.
- D. productivity of new capital increases.

...the price of the good as well as productivity of new capital increases.

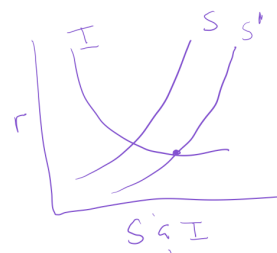
11. Holding other factors constant, a decrease in the tax rate on the revenue generated by capital will:
- A. shift the savings graph to the right; reduce the equilibrium real rate of interest and increase national saving in equilibrium.
 - B. shift the savings graph to the left; raise the equilibrium real rate of interest and decrease national saving in equilibrium.
 - C. shift the investment graph to the right; raise the equilibrium real rate of interest and increase investment in equilibrium.
 - D. shift the investment graph to the left; reduce the equilibrium real rate of interest and decrease investment in equilibrium.



12. The supply of saving equals desired (or, ex-ante) _____ and the demand for saving equals desired (or, ex-ante) _____.
- A. investment; national saving
 - B. investment; public saving
 - C. national saving; investment
 - D. national saving; capital

13. Holding other factors constant, if a reduction in government expenditures moves the government budget from deficit to surplus, then the real interest rate will _____ and the equilibrium quantity of national saving and investment will _____.

- A. increase; increase
- B. decrease; decrease
- C. increase; not change
- D. decrease; increase



14. Ex-post (in an accounting sense), Savings *always* equals Investment. However, ex-ante, *desired* savings may very well be different from _____ investment. It is the _____ which adjusts to make desired savings equal to desired investment.

- A. sometimes; public; private; inflation rate
- B. always; desired; desired; real interest rate
- C. always; actual; actual; nominal interest rate
- D. never; actual; actual; real interest rate

15. Joe's Taco Hut can purchase a delivery truck for \$20,000 and he estimates it will generate a net income (i.e., after-taxes and maintenance and operating costs) of \$2,000 per year. He should:

- A. purchase the truck only if the real interest rate is less than 12%.
- B. not purchase the truck if the real interest rate is greater than 2%.
- C. purchase the truck if the real interest rate is greater than 10%.
- D. purchase the truck if the real interest rate is less than 10%.