

## Homework 11 (0 Points)

*Note.* Do 10 get 1 free

### Multiple Choices (2 Points Each)

1. For a closed economy, GDP is \$12 trillion, consumption is \$7 trillion, taxes net of transfers are \$3 trillion and the government runs a deficit of \$1 trillion. What are private saving and national saving?
  - (a) \$5 trillion and \$3 trillion, respectively
  - (b) \$5 trillion and \$1 trillion, respectively
  - (c) \$2 trillion and \$3 trillion, respectively
  - (d) **\$2 trillion and \$1 trillion, respectively**
2. In examining the national income accounts of a closed economy, you see that this year it had taxes of \$100 billion, transfers of \$20 billion<sup>1</sup>, and government purchases of goods and services of \$70 billion. You also notice that last year it had private saving of \$70 billion and investment of \$50 billion. In which year did the economy have a budget deficit of \$20 billion?
  - (a) this year and last year
  - (b) this year but not last year
  - (c) **last year but not this year**
  - (d) neither this year nor last year

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<sup>1</sup>When there are government transfers ( $TR$ ), Private saving is  $Y - T + TR - C$  (households get  $TR$  in transfers from the government while paying  $T$  in taxes. Public saving is  $T - TR - G$  (government gets  $T$  in tax income, while spending  $G$  and giving  $TR$  to households in transfer payments).

3. Consider an open economy with Consumption = \$1,000; investment = \$200; net exports = -\$50; taxes = \$230; private saving = \$225; and national saving = \$150<sup>2</sup>. For this economy, GDP equals
- (a) \$1,480.
  - (b) \$1,505.
  - (c) \$1,460
  - (d) **\$1,455.**
4. In a closed economy, if Y remained the same, but G rose, T rose by the same amount as G, and C fell but by less than the increase in T, what would happen to private and national saving?
- (a) national saving would fall and private saving would rise
  - (b) national saving would rise and private saving would fall
  - (c) **both national saving and private saving would fall**
  - (d) None of the above is correct.
5. Last quarter in a closed economy GDP was 200,000. Expenditures on capital goods such as business equipment and structures was 19,000, inventory rose 1,000, and new construction of homes was 8,000. Consumption was 135,000 and taxes were 32,000. What was public saving?
- (a) -4,000
  - (b) **-5,000**
  - (c) -14,000
  - (d) -6,000
6. The country of Cedarland does not trade with any other country. Its GDP is \$17 billion. Its government purchases \$5 billion worth of goods and services each year and collects \$6 billion in taxes. Private saving in Cedarland is \$5 billion. For Cedarland,
- (a) investment is \$6 billion and consumption is \$7 billion.
  - (b) **investment is \$6 billion and consumption is \$6 billion.**
  - (c) investment is \$7 billion and consumption is \$7 billion.

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<sup>2</sup>Assume there are no net factor payments from abroad.

- (d) investment is \$7 billion and consumption is \$6 billion.
7. Suppose the government were to replace the income tax with a consumption tax so that interest on savings was not taxed. The result would be that the interest rate
- (a) and investment both would increase.
  - (b) and investment both would decrease.
  - (c) would increase and investment would decrease.
  - (d) **would decrease and investment would increase.**
8. In a closed economy, if  $Y$  remained the same, but  $G$  rose,  $T$  rose by the same amount as  $G$ , and  $C$  fell but by less than the increase in  $T$ , what would happen to private and national saving?
- (a) national saving would fall and private saving would rise
  - (b) national saving would rise and private saving would fall
  - (c) **both national saving and private saving would fall**
  - (d) None of the above is correct.
9. If a Japanese company opens a new factory in South Korea, it makes
- (a) **foreign direct investment. The factory will make a bigger impact on South Korea's GDP than on its GNP.**
  - (b) foreign direct investment. The factory will make a bigger impact on South Korea's GNP than on its GDP.
  - (c) foreign portfolio investment. The factory will make a bigger impact on South Korea's GDP than on its GNP.
  - (d) foreign portfolio investment. The factory will make a bigger impact on South Korea's GNP than on its GDP.
10. Which of the following events could explain a decrease in interest rates together with an increase in investment?
- (a) The government went from surplus to deficit.
  - (b) The government instituted an investment tax credit.
  - (c) **The government reduced the tax rate on savings.**
  - (d) None of the above is correct.

11. The U.S. government increases its budget deficit, but at the same time Congress eliminates an investment tax credit<sup>3</sup>. Which of the following is correct?
- (a) The interest rate will increase; investment may increase or decrease.
  - (b) The interest rate will decrease; investment may increase or decrease.
  - (c) **The interest rate may increase or decrease; investment will decrease.**
  - (d) The interest rate may increase or decrease; investment will increase.
12. In which case would people desire to borrow the most?
- (a) **the nominal interest rate is 8% and the inflation rate is 7%**
  - (b) the nominal interest rate is 7% and the inflation rate is 5%
  - (c) the nominal interest rate is 6% and the inflation rate is 3%
  - (d) the nominal interest rate is 5% and the inflation rate is 1%
13. As real interest rates fall, firms desire to
- (a) buy more new equipment and buildings. This response helps explain why the supply of loanable funds is upward sloping.
  - (b) **buy more new equipment and buildings. This response helps explain why the demand for loanable funds is downward sloping.**
  - (c) buy less new equipment and buildings. This response helps explain why the supply of loanable funds is upward sloping.
  - (d) buy less new equipment and buildings. This response helps explain why the demand for loanable funds is downward sloping.

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<sup>3</sup>An investment tax credit leads to higher demand for investment at each interest rate.