

Week 6 Review Session Questions

Thursday, May 8th, 5 and 6pm, North Hall 1110

1. Into which category of aggregate expenditure would each of the following transactions fall?
 - a. The Smith family buys an electric car.
 - b. The Riverside Public School District buys new desks for their classrooms.
 - c. The Smith family buys a home that was recently constructed.
 - d. Adam Smith orders an FC Barcelona jersey from an online site in the Spain.
 - e. McDonald's purchases 250 new iPads from Apple.
2. Discuss the determinants of consumption spending? Do you think one determinant is more important than another? How does consumption spending change when there is a rise in stock prices or housing prices?
3. Discuss what the $Y=AE$ is depicting. Draw this line on a graph with the aggregate expenditure function. Where is equilibrium? What is the slope of the $Y=AE$ and AE line? If firms have a lot of inventory at the beginning of a recession, how will production change if the amount of spending decreases?
4. Fill in the table below.
 - a. What is the value of the mpc?
 - b. What is the value of equilibrium real GDP?

Real GDP (Y)	Consumption (C)	Planned Investment (I)	Government Purchases (G)	Net Exports
5000	4500	150	300	800
6000	5250	150	300	800
7000		150	300	800
8000		150	300	800
9000		150	300	800

5. Use the information in the following table to answer the questions. Assume that the values represent billions of 2009 dollars.

Real GDP (Y)	Consumption (C)	Planned Investment (I)	Government Purchases (G)	Net Exports (NX)
12000		1500		
13000				
14000				-600
15000	12900			
16000	13700		1000	

- a. What is the equilibrium level of real GDP?
- b. What is the MPC?
- c. Suppose net exports decrease by \$400. What will be the new equilibrium level of real GDP? Use the multiplier formula to determine your answer.