Chapter 21

Put into practice questions

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Imagine that C = £10 billion + 0.5Yd
What is the MPC and the APC when:
a) disposable income is £100 billion?
b) disposable income is £200 billion?

a. C= 10 + 0.5(100) = £60bn
    APC = C/Y = 60/100 =0.6
    MPC= 0.5

b. C= 10 + 0.5(200) = £110bn
    APC = C/Y = 110/200 =0.55
    MPC= 0.5

End of chapter put into practice questions

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Draw a consumption function C = £10bn + 0.6 Yd; show what happens if
autonomous consumption increases to £15 bn.

The line shifts upwards.

The function crosses the vertical axis at £10bn and has a gradient of 0.6
If autonomous consumption increases the consumption function shifts parallel
upwards by £5bn at every level of income.

Draw a consumption function C = £20bn + 0.8 Yd; show what happens if the
marginal propensity to consume increases to 0.9.

This changes the slope of the consumption function.

The function crosses the vertical axis at £20bn and has a gradient of 0.8
If the mpc increases to 0.9 the gradient increases and the consumption function
pivots upwards.

If the consumption function is given by C = £5bn + 0.7 Yd what is the equation
for the savings function? Draw the savings function.

S= -5 +0.3 Yd

4. If the consumption function is given by C = £20bn + 0.6 Yd what is the average propensity to consume when income is £10bn, £100bn, £200bn, and £500bn?

Yd	C	APC
10	26	2.6
100	80	0.8
200	140	0.7
500	320	0.64

5. If the consumption function is given by C = £20bn + 0.6 Yd what is the marginal propensity to consume when income is £10bn, £100bn, £200bn, and £500bn?

Answer is: 0.6.

How would a fall in the marginal propensity to consume affect the aggregate demand schedule?

It would change the slope of the aggregate demand; it would pivot upwards

How would an increase in the amount of autonomous consumption affect the aggregate demand schedule?

It would shift the aggregate demand schedule upwards

If the consumption function is given by C = £50bn + 0.8 Yd what is the average propensity to save when income is £10bn, £100bn, £200bn, and £500 bn?

a. A Y=10; C = 58; APC =5.8
b. B Y=100; C =130; APC =1.3
c. C Y=200; C= 210; APC =1.05
d. D. Y=500; C= 450; APC =0.9