Chapter 4 MC

1. Which of the following changes is likely to have a negative effect on consumption?

* an increase in expected inflation
* a temporary increase in labour income
* **an increase in the nominal interest rate**
* the assets that consumers hold increase in value
* a permanent increase in labour income

1. According to the theory presented here, the consumer will plan consumption to increase over time if \_\_\_\_\_\_\_\_\_\_\_?

* labour income is expected to increase
* the real interest rate is low
* his assets are expected to increase in value
* **the real interest rate is high**

1. Which of the following observations would **not** be consistent with the theory in this chapter?

* **fluctuations in income and consumption are both transitory and they are highly correlated**
* fluctuations in income and consumption are both transitory and there is little correlation
* all fluctuations in income are temporary and consumption is stable
* most fluctuations in income are persistent and consumption is highly correlated with income

1. Which of the following statements is correct?

* in most countries, private consumption is below 50 percent of GDP
* private consumption is the most volatile component of aggregate demand
* private consumption fluctuates much less than GDP
* **private consumption is the largest component of aggregate demand**

1. A consumer wins one million dollars in a lottery. Approximately how much should he spend on consumption in the first year? (Note that we do not include purchases of assets such as a house.)

* 200 dollars
* 2000 dollars
* **20’000 dollars**
* 200’000 dollars

1. Which of the following shocks will raise the natural rate of interest?

* **consumers become more impatient**
* there is a particularly good harvest this year
* some of the assets that consumers hold turn out to be worthless
* firms expect the future growth rate to be lower