

# CONSUMPTION AND SAVINGS PRACTICE

## PROBLEMS

COACH BURNETT  
AP MACROECONOMICS

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## PROBLEM 1

Consumption and Savings adds up to:

- A. Personal Disposable Income
- B. Net Personal Savings
- C. Private Income
- D. Net Domestic Product at Factor Cost
- E. Net Investment

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## SOLUTION 1

Consumption and Savings adds up to:

- A. Personal Disposable Income

Explanation:

Personal Disposable Income (DI) is the sum of Consumption and Savings

$$IE \rightarrow DI = C+S$$

(we also learned  $DI = \text{Gross Income} - \text{Taxes}$ )

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## PROBLEM 2

The APC is calculated as:

- A. change in consumption / change in income
- B. consumption / income
- C. change in income / change in consumption
- D. income / consumption
- E. None of the above

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## SOLUTION 2

The APC is calculated as:

- B. consumption / income

Explanation:

$$APC = C/DI \%$$

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## PROBLEM 3

If the equation for the consumption schedule is  $C = 20 + 0.8Y$ , where C is consumption and Y is disposable income, then the average propensity to consume is 1 when disposable income is:

- A. \$80  
B. \$100  
C. \$120  
D. \$160  
E. \$200

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## SOLUTION 3

If the equation for the consumption schedule is  $C = 20 + 0.8Y$ , where C is consumption and Y is disposable income, then the average propensity to consume is 1 when disposable income is:

- B. \$100

Explanation:

$$20 + .8(100) =$$

$$20 + 80 = 100\% \rightarrow \text{or } 1$$

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## PROBLEM 4

The greater the marginal propensity to consume, the:

- A. Smaller the marginal propensity to save.  
B. Higher the interest rate.  
C. Lower the average propensity to consume.  
D. Lower the price level.  
E. None of the above.

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## SOLUTION 4

The greater the marginal propensity to consume, the:

- A. Smaller the marginal propensity to save.

Explanation:

If we are consuming more, then our savings level would be lower. Both added together must equal 1

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## PROBLEM 5

(1)		(2)		(3)	
DI	C	DI	C	DI	C
\$ 0	\$ 4	\$ 0	\$ 65	\$ 0	\$ 2
10	11	80	125	20	20
20	18	160	185	40	38
30	25	240	245	60	56
40	32	320	305	80	74
50	39	400	365	100	92

Refer to the above data. At an income level of \$40 billion, the average propensity to consume:

- A. Is highest in economy (1).
- B. Is highest in economy (2).
- C. Is highest in economy (3).
- D. Cannot be determined from the data given.

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## SOLUTION 5

Refer to the above data. At an income level of \$40 billion, the average propensity to consume:

- B. Is highest in economy (2).

Explanation:

$APC = C/DI$  and consumption is highest in economy (2)

–Even though  $DI = \$40B$  is not present for (2), when  $DI = 0$  the consumption level is still higher than the others

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## PROBLEM 6

Which of the following relations is not correct?

- A.  $1 - MPC = MPS$
- B.  $APS + APC = 1$
- C.  $MPS = MPC + 1$
- D.  $MPC + MPS = 1$
- E. None, all are correct

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## SOLUTION 6

Which of the following relations is not correct?

C.  $MPS = MPC + 1$

Explanation:

$MPS = 1 - MPC$

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## PROBLEM 7

The most important determinant of consumption and saving is the:

- A. Level of bank credit.
- B. Level of income.
- C. Interest rate.
- D. Price level.
- E. None of the above.

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## SOLUTION 7

The most important determinant of consumption and saving is the:

- B. Level of income.

Explanation:

How much money we have determines how we spend/  
save our money

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## PROBLEM 8

Find the correct relation.

- A.  $GDP + MPS = 100$  percent
- B.  $MPC + MPS = 100$  percent
- C.  $MPC + 1 = 100$  percent
- D.  $MPC - MPS = 100$  percent
- E. None of these.

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## SOLUTION 8

Find the correct relation.

B.  $MPC + MPS = 100$  percent

Explanation:

Writing out 100% is the same as saying '1' when discussing Consumption and Savings. This would be the same as  $MPC + MPS = 1$

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## PROBLEM 9

Consumption varies \_\_\_\_\_ with the level of income;  
investment varies \_\_\_\_\_ with the interest rate.

- A. Directly, inversely
- B. Inversely, directly
- C. Directly, directly
- D. Inversely, inversely
- E. None of these

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## SOLUTION 9

Consumption varies \_\_\_\_\_ with the level of income;  
investment varies \_\_\_\_\_ with the interest rate.

- A. Directly, inversely

Explanation:

As income rises, consumption increases and as income falls, consumption decreases. If the interest rates of investments (such as bonds) decrease, the value of those bonds increase since new issuers pay a lower yield.

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## PROBLEM 10

If the APC is .75, then the APS is:

- A. 1.25.
- B. .75.
- C. .50.
- D. .25.
- E. None of these.

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## SOLUTION 10

If the APC is .75, then the APS is:

D. .25.

Explanation:

APS + APC must always equal 1.

$$.75 + .25 = 1$$