The King took the treatise and had it printed for every islander. He then ordered the old professor to make up a series of questions to see if the subjects understood the multiplier.

Answer the questions on the professor's test.

The Econoland Test

1. What is the value of the tax multiplier if the MPC is 0.80? *–4*

2. What is the value of the government spending multiplier if the MPC is 0.67? *3*

3. What is the tax multiplier if the MPS is 0.25? *–3*

4. How could the multiplier be used to explain wide swings in income (which could be called business cycles) in Econoland? *Small changes in expenditure are magnified by the multiplier effect.*

5. The numerical value for the investment and government spending multiplier increases as the
   (A) value of the marginal propensity to save decreases.
   (B) value of the average propensity to consume increases.
   (C) value of the marginal propensity to consume decreases.
   (D) value of the marginal propensity to save increases.
   (E) value of the average propensity to consume decreases.

6. If the government spending multiplier is 5 in Econoland, the value of the tax multiplier must be
   (A) 5
   (B) 4
   (C) 1
   (D) –4
   (E) –5

Econoland has the following values for income and consumption. Use this data to answer questions 7, 8 and 9.

Income	Consumption
100	150
200	225
300	300
400	375
500	450
600	525

7. The government spending multiplier in Econoland is
   (A) 3
   (B) 4
   (C) 5
   (D) 10
   (E) 30

8. If there is an increase in taxes of $200 in Econoland, the decrease in GDP will be
   (A) $100
   (B) $200
   (C) $400
   (D) $600
   (E) $800

9. If there is an increase in government spending of $100 and an increase in taxes of $100 in Econoland, then the change in GDP will be
   (A) $50
   (B) $100
   (C) $200
   (D) –$100
   (E) –$200

10. Why do the people of Econoland need to understand multipliers? *Understanding multipliers allows people to understand the impact of fiscal policy and changes in autonomous components of consumption, investment and government spending on total income.*