PRACTICING TO TAKE THE

GRE®

ECONOMICS TEST

AN OFFICIAL FULL-LENGTH EDITION
OF THE GRE ECONOMICS TEST
ADMINISTERED IN 1985-86

GRADUATE RECORD EXAMINATIONS

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The Graduate Record Examinations Program offers a General Test measuring verbal, quantitative, and analytical abilities and Subject Tests measuring achievement in the following 17 fields:

Biology	Education	Literature in	Political
Chemistry	Engineering	English	Science
Computer	French	Mathematics	Psychology
Science	Geology	Music	Sociology
Economics	History	Physics	Spanish

The tests are administered by Educational Testing Service under policies determined by the Graduate Record Examinations Board, an independent board affiliated with the Association of Graduate Schools and the Council of Graduate Schools in the United States.

The Graduate Record Examinations Board has officially made available for purchase one full-length edition of each of the following Subject Tests: Biology, Chemistry, Computer Science, Economics, Education, Engineering, History, Literature in English, Physics, and Psychology. Two practice books, each containing three General Tests, are also available. These practice books may be purchased by using the order form on page 43.

Full-length editions of the other Subject Tests are not yet available. However, individual booklets describing each test and including sample questions and score interpretation information are available free of charge for all 17 Subject Tests. These booklets may be requested by writing to:

Graduate Record Examinations Program
CN 6014
Princeton, NJ 08541-6014

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Practicing to Take the GRE® Economics Test

This practice book contains the full-length GRE® Economics Test that was given at GRE test centers in December 1985. It has been published on behalf of the Graduate Record Examinations Board to help potential graduate students prepare to take the test.

The book includes information about the purpose of the GRE Subject Tests, a detailed description of the content specifications for the GRE Economics Test, and the procedures for developing the test. This information also appears in the descriptive booklet you will receive when you register to take the test. The practice book contains a complete test book, including the general instructions printed on the back cover and inside back cover. Before you take the test at the test center, you will be given time to read these instructions. They show you how to mark your answer sheet properly and give you advice about guessing.

Try to take this practice test under conditions that simulate those in an actual test administration. Use the answer sheet provided on page 41 and mark your answers with a number 2 (soft-lead) pencil, as you will do at the test center. Give yourself 2 hours and 50 minutes in a quiet place and work through the test without interruption, focusing your attention on the questions with the same concentration you would use in taking the test to earn a score. Since you will not be permitted to use them at the test center, do not use dictionaries or other books, compasses, rulers, slide rules, calculators, calculator/watch combinations, or any other aids.

After you complete the test, use the work sheet and conversion table on pages 6 and 7 to score your test. The work sheet also shows the percentage of those who took the test in December 1985 who answered each question correctly so that you can compare your performance on the questions with theirs. Evaluating your performance on the questions should help you determine whether you would benefit by reviewing certain courses before taking the test at the test center.

We believe that if you use this practice book as we have suggested, you will be able to approach the testing experience with increased confidence.

PURPOSE OF THE GRE SUBJECT TESTS

The GRE Subject Tests are designed to help graduate school committees and fellowship sponsors assess the qualifications of applicants in their respective subject fields. The tests also provide students with a means of assessing their own competence.

Scores on the tests are intended to indicate students' mastery of the subject matter emphasized in many undergraduate programs. Since past achievement is usually a good indicator of future performance, the scores aid in predicting students' probable success in advanced study. Because the tests are standardized, the test scores permit comparison of the competence of students from different institutions with different undergraduate programs.

The Graduate Record Examinations Board recommends that scores on the Subject Tests be evaluated in conjunction with other relevant information about applicants. Because numerous factors influence success in graduate school, reliance on a single measure to predict success is not advisable. Other indicators of competence typically include transcripts showing the range of courses taken and the grades earned, letters of recommendation, and GRE General Test scores.

DEVELOPMENT OF THE ECONOMICS TEST

Each new edition of the Economics Test is developed by a committee of examiners composed of specialists in various aspects of the field who come from undergraduate and graduate faculties representative of different types of institutions and different regions of the United States. In selecting members of this committee, the GRE Program staff seeks the advice of the American Economic Association and the National Economic Association.

Subject-matter and measurement specialists on the ETS staff assist the committee of examiners. They provide information and advice about methods of test construction and help prepare the questions and assemble the test.

Because of the diversity of undergraduate curricula in economics, it is not possible, within the limitations of a test, to cover all the material that examinees may have studied. The examiners, therefore, try to select questions that sample the basic knowledge and understanding most important for successful graduate study in the field. The committee works to keep the test up-to-date. New editions are developed regularly so the test content changes steadily but gradually, much like most curricula. When a new edition is introduced into the program, it is equated; that is, the scores are related to those on previous editions by statistical methods so that scores from all active editions are directly comparable. Although they do not contain the same questions, all editions of the test are constructed according to equivalent specifications for content and level of difficulty and each measures equivalent knowledge and skills.

After a new edition of the Economics Test has been taken by examinees at an international test administration, the performance of the examinees on each question is analyzed. If this analysis and the accompanying appraisal of content reveals that a question is not satisfactory—that it is ambiguous or inappropriate for the group taking the test—the answers to that question are not used in computing the scores.

CONTENT OF THE GRE ECONOMICS TEST

The test consists of about 140 multiple-choice questions, each with five suggested answers. Some of them are grouped in sets and based on such materials as diagrams, expository paragraphs, sets of equations, and tables of data.

The committee of examiners feels that, for most graduate admissions decisions in economics, the primary concern is a student's ability and competence in the basic skills of economic analysis. Broadly defined, economic analysis includes interpreting and manipulating diagrams and simple mathematics; explaining and predicting economic behavior, given certain assumptions; prescribing appropriate action and policy; and drawing conclusions from specified economic information and data. Of secondary importance is a student's knowledge of economic history, institutions, and terminology.

As a reflection of the importance of economic analysis, approximately two-thirds of the questions in current editions of the Economics Test are evenly divided between microeconomic analysis and macroeconomic analysis. Some of these questions review familiar material. Others require examinees to apply the tools of microeconomics and macroeconomics (such as marginal analysis and models of income determination) to problems that may not have been encountered in the usual course work.

Some of the questions are integrative, testing skills and knowledge of concepts that have both microeconomic and macroeconomic applications. Others may be couched in a setting most frequently encountered in a specific area of economics—for example, a question about the microeconomic effects of taxes, from the area of public finance, or a question about the macroeconomic effects of a change in interest-rate ceilings, from money and banking. In these cases, the questions frequently can be answered by drawing on pure microeconomic and macroeconomic insights and techniques, without any special knowledge of public finance or money and banking.

Approximately a third of the questions cover material that is usually treated in courses beyond the introductory and intermediate microeconomics and macroeconomics courses. In addition to public finance and money and banking, international trade (and finance) and quantitative economics (and econometrics) are prominently represented. Questions also appear that relate closely to labor economics, industrial organization, economic development, mathematical economics, comparative economic systems and philosophies, urban and regional economics, economic growth, welfare economics, externalities, income distribution, the economics of public choice, and other subareas of economics. Once again, questions are often asked in such a way that no special knowledge of the subarea is necessary to rule out incorrect choices.

The members of the examining committee pay careful attention to the balance between microeconomics and macroeconomics and among the various subareas in economics. While their presumption is that most students have some exposure to microeconomics and macroeconomics at the intermediate level, and to public finance, money and banking, international economics, and quantitative economics, they also recognize that substantial emphasis on any one topic would penalize those who have not taken courses devoted to it. And since the preparation of students will inevitably vary, it is expected that each score will be evaluated in light of the student's training and record as of the time he or she takes the test.

In addition, the committee pays careful attention to changes in the average economics course curriculum over time and attempts to reflect such changes in the Economics Test. For example, questions in quantitative economics and econometrics have become more prominent in recent test editions than they were in those of several years ago. This mirrors the increasing importance of these subjects in professional practice and their increasing relevance to success in many graduate schools.

TEST-TAKING STRATEGY

Presumably, if you are about to take the GRE Economics Test, you have completed or nearly completed an undergraduate major in that subject. Reviewing your curriculum is probably the best way for you to prepare to take the test. Because the test provides reliable measurement over a broad range of subject matter, you should not expect to be familiar with the content of every question.

When you take the test, read the test directions carefully and work as rapidly as you can without being careless. Do not spend too much time pondering questions you find extremely difficult or unfamiliar because no question carries greater weight than any other.

You receive one "raw score" point for a right answer and nothing for an omission; one-fourth of a point is lost for each wrong answer. As a result of this procedure, random guessing will probably not increase your score, so it is not a useful strategy. However, if you have some knowledge about a question and can eliminate one or more of the answer choices as wrong, your chance of getting the right answer is improved and, on the average, it will be to your advantage to answer the question. Each raw score is converted to a scaled score for reporting.

WORK SHEET for the ECONOMICS Test, Form GR8631
Answer Key and Percentage* of Examinees Answering Each Question Correctly

QUESTION Number	Answer	P+	TOTAL R	W
1	D	49		
2	D	44		
3	C	78		
4	D	42		
5	A	41		
6	E	78		
7	C	17		
8	E	66		
9	E	68		
10	B	64		
11	D	62		
12	A	85		
13	C	8		
14	D	65		
15	A	34		
16	E	50		
17	C	43		
18	D	28		
19	B	71		
20	D	45		
21	B	66		
22	B	55		
23	C	30		
24	A	27		
25	A	62		
26	D	80		
27	A	89		
28	C	75		
29	E	38		
30	A	64		
31	D	38		
32	A	43		
33	E	38		
34	C	25		
35	C	59		
3C	E	22		
37	B	45		
38	E	30		
39	E	54		
40	B	42		
41	A	50		
42	D	22		
43	C	19		
44	B	32		
45	C	8		
46	A	18		
47	E	44		
48	B	39		
49	E	51		
50	B	57		

Right (R) _____

Wrong (W) _____

QUESTION Number	Answer	P+	TOTAL R	W
51	C	31		
52	A	62		
53	D	90		
54	D	55		
55	B	26		
56	B	22		
57	B	45		
58	A	58		
59	D	52		
60	C	20		
61	C	47		
62	E	91		
63	B	73		
64	D	33		
65	A	47		
66	A	71		
67	B	65		
68	E	41		
69	D	46		
70	A	22		
71	A	21		
72	B	79		
73	B	53		
74	D	67		
75	B	44		
76	B	66		
77	A	27		
78	E	47		
79	A	47		
80	A	46		
81	D	70		
82	E	67		
83	D	42		
84	C	70		
85	D	45		
86	B	43		
87	E	44		
88	D	49		
89	A	27		
90	E	51		
91	D	32		
92	A	70		
93	C	57		
94	D	44		
95	C	34		
96	B	74		
97	D	44		
98	A	10		
99	B	68		
100	D	21		

Right (R) _____

Wrong (W) _____

QUESTION Number	Answer	P+	TOTAL R	W
101	D	65		
102	E	62		
103	D	35		
104	E	49		
105	C	32		
106	C	56		
107	C	24		
108	B	83		
109	B	24		
110	C	37		
111	B	31		
112	C	41		
113	C	10		
114	D	63		
115	A	39		
116	E	47		
117	B	78		
118	C	57		
119	D	44		
120	B	33		
121	A	31		
122	C	35		
123	D	29		
124	C	37		
125	B	65		
126	C	16		
127	D	22		
128	B	67		
129	B	54		
130		—		
131	B	32		
132	C	59		
133	E	39		
134	D	72		
135	D	68		

Right (R) _____

Wrong (W) _____

Total Score

R − W/4 = _____

Scaled Score (SS) = _____

*Estimated P+ for the group of examinees who took the GRE Economics Test in a recent three-year period.

6

HOW TO SCORE YOUR TEST

The work sheet on page 6 lists the correct answers to the questions. Columns are provided for you to mark whether you chose the right (R) answer or a wrong (W) answer to each question. Draw a line across any question you omitted, because it is not counted in the scoring. At the bottom of each "total" column, enter the number right and the number wrong. Then add the three column totals across to get the total right and total wrong. Divide the total wrong by 4 and subtract the resulting number from the total right. This is the adjustment made for guessing. Then round the result to the nearest whole number. This will give you your raw total score. Use the total score conversion table below to find the scaled total score that corresponds to your raw total score.

Example: Suppose you chose the right answers to 66 questions and wrong answers to 54. Dividing 54 by 4 yields 13.5. Subtracting 13.5 from 66 equals 52.5, which is rounded to 53. The raw score of 53 corresponds to a scaled score of 620.

EVALUATING YOUR PERFORMANCE

Now that you have scored your test, you may wish to see how your scores compare with those earned by others who took this test. For this purpose, the performance of a sample of the examinees who took the test in December 1985 was analyzed. The sample was selected to represent the total population of GRE examinees tested between October 1981 and September 1984. Interpretive data based on the scores earned by these examinees are to be used by admissions officers in 1986-87. By comparing your performance on this practice test with the performance of the analysis sample, you will be able to determine your strengths and weaknesses and can then plan a program of study to prepare yourself for taking the Economics Test under standard conditions.

Two kinds of information are provided. On the work sheet you used to determine your score is a column labeled "P + ." The numbers in this column indicate the percent of the examinees in the analysis sample who answered each question correctly. In a test of this kind, a question is considered to be of average difficulty if it is answered correctly by about 60 percent (P + = 60) of the examinees. Use this as a guide for evaluating your performance on the questions that deal with topics covered in the undergraduate courses you have taken. On these questions, you should do relatively well. There are probably some questions on material you have not encountered in your undergraduate program. You may have omitted these questions or guessed at answers, and your performance on them contributes little to your score.

SCORE CONVERSIONS AND PERCENTS BELOW*
FOR GRE ECONOMICS TEST, Form GR8631

Raw Score	Scaled Score	%	Raw Score	Scaled Score	%
133-134	970	99	46-47	590	42
131-132	960	99	44-45	580	38
129-130	950	99	41-43	570	34
127-128	940	99	39-40	560	30
124-126	930	99	37-38	550	27
122-123	920	99	34-36	540	23
120-121	910	99	32-33	530	20
117-119	900	99	30-31	520	17
			27-29	510	14
115-116	890	99	25-26	500	12
113-114	880	99			
110-112	870	99	23-24	490	9
108-109	860	98	20-22	480	7
106-107	850	98	18-19	470	6
103-105	840	97	16-17	460	5
101-102	830	96	14-15	450	3
99-100	820	96	11-13	440	2
97-98	810	95	9-10	430	1
94-96	800	94	7-8	420	1
			4-6	410	0
92-93	790	93	2-3	400	0
90-91	780	92			
87-89	770	90	0-1	390	0
85-86	760	89			
83-84	750	87			
80-82	740	86			
78-79	730	84			
76-77	720	81			
73-75	710	79			
71-72	700	77			
69-70	690	75			
67-68	680	72			
64-66	670	69			
62-63	660	66			
60-61	650	63			
57-59	640	59			
55-56	630	56			
53-54	620	52			
50-52	610	49			
48-49	600	45			

*Percent scoring below the scaled score based on the performance of the 10,051 examinees who took the GRE Subject Test in Economics between October 1, 1981, and September 30, 1984.

The other kind of information provided is based on the total scores earned by the analysis sample. It appears in the conversion table for total scores in a column to the right of the scaled scores and shows for each total scaled score the percent of the analysis sample who received lower scores. For example, in the percent column opposite the scaled score 550 is the percent 27. This means that 27 percent of the analysis sample examinees scored lower than 550 on this test. Note the percent paired with the total scaled score you made on the practice test. That number is a reasonable indication of your rank among GRE Economics Test examinees if you followed the test-taking suggestions in this practice book.

It is important to realize that the conditions under which you tested yourself were not exactly the same as those you will encounter at a test center. It is impossible to predict how differing test-taking conditions will affect test performance, but this is one factor that may account for differences between your practice test scores and your actual test scores.

ADDITIONAL INFORMATION

If you have any questions about any of the information in this book, please write to:

Graduate Record Examinations Program
CN 6000
Princeton, NJ 08541-6000

Before you start timing yourself on the test that follows, we suggest that you remove the answer sheet (page 41) and turn first to the back cover of the test book (page 40), as you will do at the test center, and follow the instructions for completing the identification areas of the answer sheet. Then read the inside back cover instructions (page 39). When you are ready to begin the test, note the time and start marking your answers to the questions on the answer sheet.

THE GRADUATE RECORD EXAMINATIONS

ECONOMICS TEST

*Do not break the seal
until you are told to do so.*

*The contents of this test are confidential.
Disclosure or reproduction of any portion
of it is prohibited.*

ECONOMICS TEST
Time—170 minutes

135 Questions

<u>Directions:</u> Each of the questions or incomplete statements below is followed by five suggested answers or completions. Select the one that is best in each case and then blacken the corresponding space on the answer sheet.

1. Keynes believed that persons who would sell bonds in order to hold idle cash probably

 (A) regard the present interest rate as unusually high
 (B) regard present bond prices as below normal
 (C) expect bond prices to rise
 (D) expect the interest rate to rise
 (E) expect the interest rate to fall

2. The demand curve for widgets is given by D = 85 − 5P and the supply curve is given by S = 25 + 5P, where P is the price of widgets. When the widget market is in equilibrium, the quantity of widgets bought and sold is

 (A) 6
 (B) 11
 (C) 30
 (D) 55
 (E) 80

3. A firm is about to publish a book where the average cost of producing the book is $4 + \dfrac{\$4,000}{Q}$, where Q is the output per year of the book. If the price of the book is $8, the break-even point for the book is how many copies per year?

 (A) 500   (B) 750   (C) 1,000
  (D) 2,000   (E) 3,000

4. A good is subject to periodic increases in supply. Each time supply increases, the total revenue of the suppliers decreases. Which of the following must be true of the good?

 (A) It is a superior good.
 (B) It is an inferior good.
 (C) It has a price inelastic supply.
 (D) It has a price inelastic demand.
 (E) It has a price elastic demand.

5. If output is a linear-homogeneous function of labor and capital and if each factor is paid the value of its marginal product, which of the following must be true?

 (A) The payments to labor and capital equal the value of the output.
 (B) Labor receives the largest share of income.
 (C) Profits equal the marginal product of labor.
 (D) The marginal products of labor and capital are linear-homogeneous functions of labor and capital.
 (E) The law of variable proportions does not hold.

6. Which of the following is done to avoid double counting in the valuation of national output?

 (A) Expenditures on consumption goods are excluded.
 (B) Payments of salaries to public employees are excluded.
 (C) Total inventories are subtracted from gross output.
 (D) Total profits are subtracted from gross income.
 (E) Purchases of intermediate inputs are subtracted from sales.

GO ON TO THE NEXT PAGE.

7. Suppose consumers are fully informed about the hazards involved in using a dangerous product that is produced competitively. If transaction costs are zero, and if producers are legally liable for injuries caused, then, according to the Coase theorem, the quantity produced will be

    (A) less than if consumers were legally liable
    (B) more than if consumers were legally liable
    (C) equal to what it would be if consumers were legally liable
    (D) greater than is socially optimal
    (E) zero, because firms will choose not to produce the product

8. Marginal cost is equal to price under conditions of perfect competition because

    (A) the marginal revenue curve is vertical
    (B) the marginal revenue curve intersects the demand curve
    (C) marginal revenue is less than price
    (D) marginal costs are increasing
    (E) the demand curve is horizontal

9. A firm's demand curve for labor is determined by the

    (A) average productivity of the firm's capital equipment
    (B) dual linear program for all of the production activities of the firm
    (C) aggregate marginal-revenue curve for all of the firm's inputs
    (D) price of labor faced by the firm
    (E) marginal-revenue product curve for the firm's labor input

10. If other factors remain constant, an increase in the level of prices will do which of the following?

    (A) Reduce the nominal wage rate.
    (B) Reduce the real money supply.
    (C) Benefit creditors at the expense of debtors.
    (D) Generate a positive real-balance effect.
    (E) Exert a downward pressure on interest rates.

11. One way to reduce the "natural rate" of unemployment would be to

    (A) raise the minimum wage rate
    (B) pursue an expansive fiscal policy
    (C) pursue an expansive monetary policy
    (D) increase job information
    (E) increase unemployment benefits

12. A tax is an automatic stabilizer if the tax revenues have which of the following characteristics?

    (A) They rise during periods of economic expansion and fall during recessions.
    (B) They fall during periods of economic expansion and rise during recessions.
    (C) They are independent of national income.
    (D) They are collected primarily from people in the highest quarter of the income distribution.
    (E) They are earmarked for a particular government expenditure program.

13. A consumer is indifferent between the following combinations of apples and oranges.

Apples	Oranges
10	15
11	11
12	8
13	5
14	3

    If the consumer purchases 12 apples and 8 oranges, what is the ratio of the price of apples to the price of oranges?

    (A) 0.67
    (B) 1.5
    (C) 3
    (D) 4
    (E) It cannot be determined from the information given.

14. If the current and future rate of interest is 5 percent, an asset (with zero carrying costs) that yields a continuous annual income of $100 will have a present value of

    (A) $100   (B) $500   (C) $1,000
    (D) $2,000   (E) $50,000

In a statistical study of the determinants of housing values, a researcher arrived at the following estimated regression equation:

$$V = 10 + 2.4X + 1.2G - 0.5T \qquad R^2 = 0.83$$
$$\quad\;\;(3.1)(0.4)\quad (0.4)\quad (0.1) \qquad N = 500$$

where

V = market value of the housing unit,

X = the size of the unit (as measured by number of rooms),

G = the level of public services available at the location of the unit,

T = the true property-tax rate to which the unit is subject,

N = number of observations.

The numbers in parentheses below the estimated coefficients are their respective standard errors.

The researcher was interested in testing two hypotheses:

I. People are willing to pay more to live in locations with higher levels of public services.

II. Property taxes are (at least) partially capitalized into lower housing values.

15. At a 0.05 level of significance, the findings embodied in the estimated regression equation provide empirical support for

(A) both hypotheses
(B) hypothesis I, but not hypothesis II
(C) hypothesis I only if the constant term is disregarded, but not hypothesis II
(D) hypothesis II, but not hypothesis I
(E) neither hypothesis

16. Which of the following can be inferred about V from the estimated regression equation?

(A) The simple correlation between V and T is negative.
(B) The simple correlation between V and T is positive.
(C) The simple correlation between V and G is negative.
(D) The simple correlation between V and G is positive.
(E) No conclusions can be drawn about the simple correlation beween V and any one of the independent variables.

17. Personal tax cuts that cause government budget deficits to increase will have the LEAST effect on interest rates when the tax cuts are

(A) targeted to marginal taxpayers rather than average taxpayers
(B) targeted to those who save little of their income
(C) offset by increased private saving in anticipation of higher interest payments on future government debt
(D) offset by increased government spending on goods and services
(E) accompanied by increased subsidies and other transfer payments to business

18. In a Heckscher-Ohlin model of international trade, prices of individual factors of production will be equalized through commodity trade between two countries unless

(A) production functions are homogeneous and linear
(B) output levels of the traded commodities differ in the two countries
(C) production functions for a given commodity are the same in each country
(D) complete specialization occurs in equilibrium
(E) the elasticity of substitution between labor and capital is 1

GO ON TO THE NEXT PAGE.

With annual observations covering a period of 20 years and using ordinary least squares as the estimation technique, an econometrician has obtained the following regression equation relating aggregate consumption to disposable income.

$$C = 50 + .93Y \qquad R^2 = 0.95$$
$$(10)\ (0.05)$$

where

C = consumption,
Y = disposable income,
R^2 = coefficient of determination.

The numbers in parentheses below the estimated coefficients are the standard errors of the coefficients.

19. The estimated equation indicates that the predicted increase in consumption resulting from a unit increase in income is

   (A) 0.07
   (B) 0.93
   (C) 0.95
   (D) 50
   (E) $50 + 0.93Y$

20. The relative sizes of the coefficient of the disposable-income variable and its standard error indicate that

   (A) the average propensity to consume is equal to the marginal propensity to consume
   (B) the relationship between consumption and disposable income is not statistically significant
   (C) consumption depends only on disposable income
   (D) the coefficient is significantly different from zero at a high (0.99) level of confidence
   (E) the coefficient is significantly different from 1 at a high (0.99) level of confidence

21. The value of R^2 (the coefficient of determination) indicates that

   (A) the mean value of consumption is equal to 95% of disposable income
   (B) the estimated relationship statistically accounts for 95% of the variation in consumption
   (C) the standard deviation of the independent variable is 0.95
   (D) a rise of $1.00 in disposable income is typically associated with an increase in consumption of $0.95
   (E) consumption changes in the same direction as disposable income 95% of the time

22. The permanent-income hypothesis of consumption implies that

   (A) a windfall gain in the current period will be fully expended on increased current consumption
   (B) temporary income-tax reductions or surcharges are not likely to have a large effect on levels of current consumption
   (C) the level of current consumption depends primarily on the peak level of disposable income in a preceding period
   (D) consumers are subject to money illusion in their expenditure patterns over time
   (E) consumption over time is likely to exhibit a greater variation than that of disposable income

23. The assumption that the velocity of money is constant implies that the demand for nominal money balances is

   (A) constant
   (B) dependent only on real income
   (C) dependent only on nominal income
   (D) dependent only on the interest rate
   (E) dependent on both nominal income and the interest rate

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24. Last year, a family built a house at a cost of $80,000. The purchase of the house was financed with a $20,000 down payment and a $60,000 mortgage loan from a commercial bank. Was the purchase of the house part of the Personal Consumption Expenditures component of the United States Gross National Product last year?

(A) No; the construction of new housing is included in the Gross Private Domestic Investment component of the United States GNP.

(B) No; although United States GNP consists in part of the services of existing housing units, the construction of new housing units is not included in the United States GNP.

(C) Yes, but only in part. The $20,000 down payment was included in Personal Consumption Expenditures. The $60,000 balance of the purchase price was measured as part of Gross Private Domestic Investment.

(D) Yes, but only in part. The $20,000 down payment was measured as part of Personal Savings. Only the portion of the cost of the house that was financed with the mortgage ($60,000) was measured as part of Personal Consumption Expenditures.

(E) Yes; the purchase of the house was measured as part of Personal Consumption Expenditures.
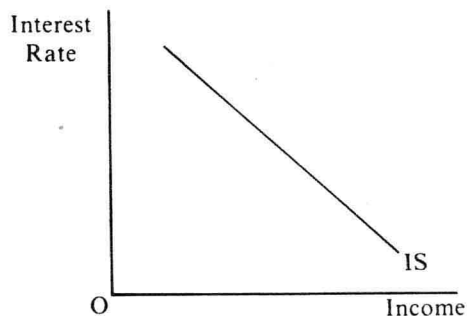
25. Which of the following events will tend to shift the IS curve shown above upward and to the right?

(A) An exogenous increase in consumption demand
(B) An increase in tax rates
(C) An open-market purchase of government securities by the central bank
(D) A decrease in government transfer payments
(E) A decrease in government purchases

26. The price of a good is greater than the marginal cost of production whenever the

(A) industry demand is elastic
(B) industry demand is inelastic
(C) good is sold under conditions of perfect competition
(D) good is sold under conditions of imperfect competition
(E) good is an inferior good

Questions 27-28 are based on the following consumption schedule.

Income (Y)	Consumption (C)
$360	$334
370	343
380	352
390	361
400	370
410	379
420	388
430	397

27. Which of the following represents the equation for the consumption function?

(A) $C = 10 + 0.9Y$
(B) $C = 20 + 0.8Y$
(C) $C = 20 + 0.7Y$
(D) $C = 38 + 0.9Y$
(E) $C = 45 + 0.9Y$

28. Suppose that $Y = C + I$ where I is investment. If investment is $30 billion, the equilibrium level of income will be

(A) $370
(B) $390
(C) $400
(D) $410
(E) $420

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