Homework: Read Chapter 12 and answer the following questions (use a separate piece of paper if needed) :

1. Define consumption and consumption goods
2. What is the difference between “stocks” and “flows”? (give example, too)
3. Describe the relationship between savings, consumption and disposable income. What is “accounting identity”?
4. Define investment
5. What’s the planned investment function? What causes it to shift?
6. What is the consumption function? Describe and draw an example of a graph
7. What is APC?
8. What is APS?
9. What is the difference between Marginal and Average Propensities?
10. What causes shifts in the consumption function?
11. Draw and label a 45° reference line and describe what it tells us
12. How do we determine the equilibrium level of GDP per year? (Keynesian equilibrium)
13. What is the multiplier and what is its significance?
14. What is the multiplier effect? What is the formula?
15. What is the real balance effect?