13. Which one of the following components of aggregate expenditure is the most unstable?

(a) Private investment expenditure

(b) Private consumption expenditure

(c) Government investment expenditure

(d) Government consumption expenditure

14. If the marginal propensity to consume is very close to zero, then the multiplier

(a) is very close to zero.

(b) is very close to one.

(c) is very large.

(d) cannot be calculated.

15. An income tax cut \_\_\_\_\_\_\_\_ aggregate demand and \_\_\_\_\_\_\_\_ aggregate supply.

(a) increases; increases

(b) increases; decreases

(c) decreases; increases

(d) decreases; decreases



(b) Using the aggregate demand/aggregate supply (AD/AS) model, explain how an increase in Australia’s terms of trade could cause a business cycle expansion. (10 marks)





