

**MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.**  
**2 marks each (total 100 marks). Record your answers on the scantron.**

- 1) Gross domestic product is 1) \_\_\_\_\_
- A) the average value of output produced in a country in a given time period.
  - B) the market value of all the intermediate goods and services produced in a country during a given time period.
  - C) the market value of all goods and services produced in a country during a given time period.
  - D) the final value of all goods produced in a country in a given time period.
  - E) the market value of all the final goods and services produced in a country during a given time period.
- 2) Of the following items, which one would be considered as investment in the *National Income and Expenditure Accounts*? 2) \_\_\_\_\_
- A) The purchase of 100 shares of Bell Canada stock on the Toronto Stock Exchange.
  - B) The purchase of a Canadian government bond.
  - C) The purchase of a new van by a potter who packs it with his wares and travels to art shows on weekends.
  - D) The purchase of a 100-year-old house that was put on the protected historic sites list.
  - E) All of the above.
- 3) The sum of wages, salaries and supplementary labour income, corporate profits, interest and miscellaneous investment income, farmers' income, and income of non-farm unincorporated businesses, is 3) \_\_\_\_\_
- A) net domestic income at factor cost.
  - B) gross domestic product.
  - C) total output of the economy.
  - D) gross domestic income.
  - E) net domestic product.
- 4) In a country with a working-age population of 22 million, 16 million are employed, 2 million are unemployed, and 1 million of the employed are working part-time, half of whom wish to work full-time. The unemployment rate is 4) \_\_\_\_\_
- A) 15.4 percent.
  - B) 10 percent.
  - C) 10.3 percent.
  - D) 11.1 percent.
  - E) none of the above.
- 5) Comparing the core inflation rate to the Consumer Price Index, the core inflation rate 5) \_\_\_\_\_
- A) uses current period quantities, not base period quantities.
  - B) includes volatile elements not in the CPI.
  - C) measures all goods produced, not just consumer goods.
  - D) controls for the biases of the CPI.
  - E) excludes the volatile elements of the CPI.

- 6) If the real interest rate rises from 3 percent to 5 percent, 6) \_\_\_\_\_
- A) the demand for loanable funds curve shifts rightward.
  - B) the supply of loanable funds curve shifts rightward.
  - C) there is a movement down along the supply of loanable funds curve.
  - D) the nominal interest rate falls.
  - E) there is a movement up along the demand for loanable funds curve.

Refer to the figure below to answer the following questions.

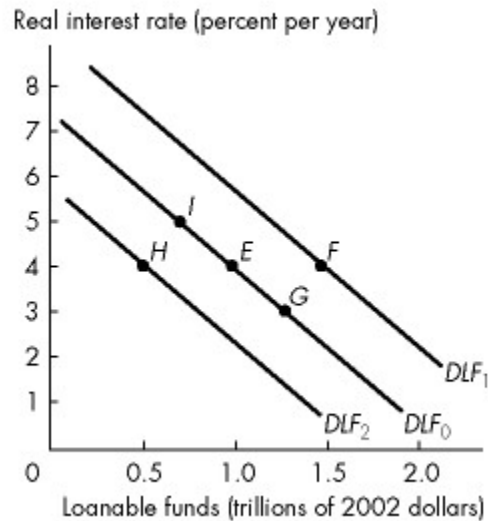


Figure 23.2.2

- 7) Refer to Figure 23.2.2. In Figure 23.2.2, an increase in expected profit will result in a movement from point E to 7) \_\_\_\_\_
- A) point F.
  - B) point G.
  - C) point I.
  - D) either point I or point F.
  - E) point H.
- 8) All of the following are sources of loanable funds EXCEPT 8) \_\_\_\_\_
- A) government budget surplus.
  - B) private saving.
  - C) international borrowing.
  - D) business investment.
  - E) none of the above.
- 9) A decrease in disposable income 9) \_\_\_\_\_
- A) shifts the supply of loanable funds curve rightward
  - B) has no effect on the supply of loanable funds curve
  - C) shifts the supply of loanable funds curve leftward
  - D) creates a movement up along the supply of loanable funds curve
  - E) creates a movement down along the supply of loanable funds curve

Refer to the figure below to answer the following questions.

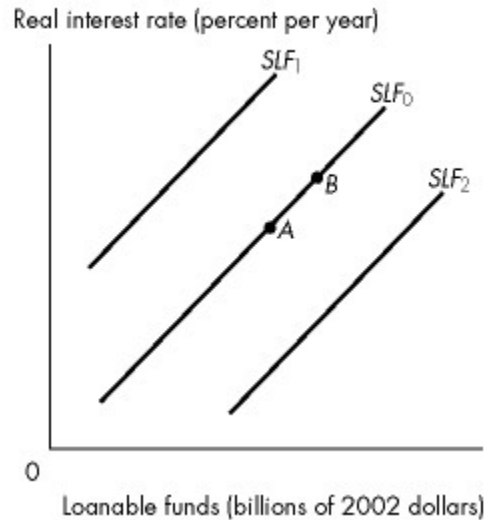


Figure 23.2.4

- 10) Refer to Figure 23.2.4. In Figure 23.2.4, the economy is at point *A* on the supply of loanable funds curve *SLF*<sub>0</sub>. What happens if the real interest rate rises? 10) \_\_\_\_\_
- A) There is a movement to a point such as *B* on the supply of loanable funds curve *SLF*<sub>0</sub>.
  - B) Nothing; the economy would remain at point *A*.
  - C) The supply of loanable funds curve shifts leftward to a curve such as *SLF*<sub>1</sub>.
  - D) The supply of loanable funds curve shifts rightward to a curve such as *SLF*<sub>2</sub>.
  - E) None of the above.
- 11) In Canada's economy, investment is financed by 11) \_\_\_\_\_
- A)  $C + I + G + X - M$ .
  - B)  $S + T + M$ .
  - C)  $C + S + T$ .
  - D)  $S + (T - G) + (M - X)$ .
  - E)  $S + (T - G) + (X - M)$ .
- 12) If we import more than we export from the rest of the world we 12) \_\_\_\_\_
- A) are a net borrower of funds from the rest of the world.
  - B) are helping to finance investment in the rest of the world.
  - C) are a net lender of funds to the rest of the world.
  - D) have a surplus of funds at the world equilibrium interest rate.
  - E) are running a trade surplus.
- 13) If a country has a shortage of loanable funds at the world real interest rate \_\_\_\_\_, 13) \_\_\_\_\_
- A) the demand for loanable funds in this country decreases
  - B) world suppliers of loanable funds move funds to this country
  - C) the world interest rate falls
  - D) the country increases its net exports
  - E) the country decreases its net exports

- 14) A very small country is a net foreign borrower and its supply of loanable funds increases. As a result, the equilibrium quantity of loanable funds used in the country \_\_\_\_\_ and the country's foreign borrowing \_\_\_\_\_. 14) \_\_\_\_\_
- A) increases; decreases
  - B) does not change; decreases
  - C) does not change; increases
  - D) increases; does not change
  - E) does not change; does not change
- 15) A private firm that takes deposits from households and firms and makes loans to other households and firms is 15) \_\_\_\_\_
- A) a depository institution.
  - B) a usurer.
  - C) a credit company.
  - D) a stockbroker.
  - E) an insurance company.
- 16) Which of the following is an economic function of a chartered bank? 16) \_\_\_\_\_
- A) Pooling risk.
  - B) Supervising financial markets.
  - C) Conducting monetary policy.
  - D) Issuing bank notes.
  - E) None of the above.
- 17) If a customer of a bank makes a withdrawal from his chequable deposit account, 17) \_\_\_\_\_
- A) M1 decreases.
  - B) M2 decreases.
  - C) the bank's reserve ratio remains the same.
  - D) the bank's reserve ratio decreases.
  - E) the bank's reserve ratio increases.

Use the information below to answer the following questions.

**Fact 24.3.1**

The Bank of Speedy Creek has chosen the following initial balance sheet:

Assets	Liabilities
Reserves \$40	Deposits \$500
Loans <u>\$460</u>	
\$500	

- 18) Refer to Fact 24.3.1. Based on the Bank of Speedy Creek's initial balance sheet, what is its desired reserve ratio? 18) \_\_\_\_\_
- A) 12.5 percent
  - B) 8 percent
  - C) 4 percent
  - D) 40 percent
  - E) 25 percent

- 19) The quantity of money that the banking system can create is limited by
- A) the credit ratings of the consumers who are applying for loans.
  - B) bank managers' decisions.
  - C) the monetary base, desired reserves, and desired currency holdings.
  - D) the number of consumers who apply for loans.
  - E) the quantity of bank notes released by the Bank of Canada.

19) \_\_\_\_\_

Use the figure below to answer the following questions.

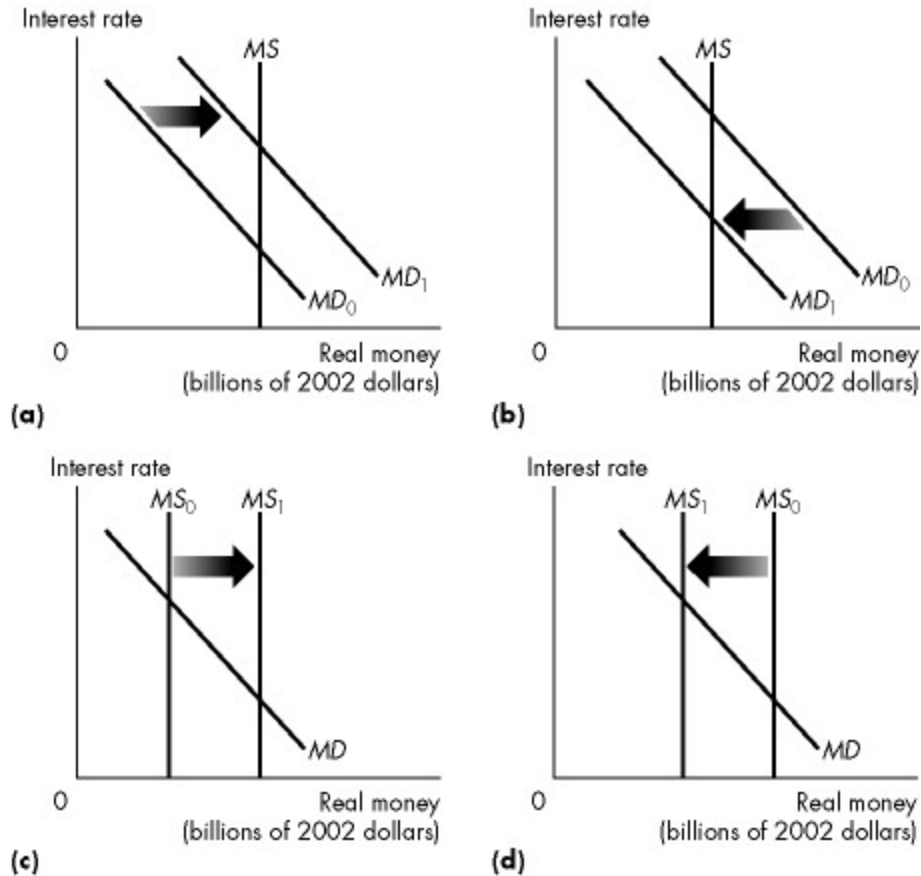


Figure 24.4.1

- 20) Refer to Figure 24.4.1. Everything else remaining the same, which graph best shows an increase in real GDP? 20) \_\_\_\_\_
- A) (a)
  - B) (b)
  - C) (c)
  - D) (d)
  - E) (a) and (c)
- 21) The amount of real money people want to hold will decrease if either the rate of interest increases or 21) \_\_\_\_\_
- A) real GDP decreases.
  - B) the price level decreases.
  - C) the price level increases.
  - D) real GDP increases.
  - E) the price of bonds increase.

- 22) The quantity theory of money begins with the equation of exchange,  $MV = PY$ , and then adds the assumptions that 22) \_\_\_\_\_
- A) velocity and potential GDP are independent of the quantity of money.
  - B) velocity varies inversely with the interest rate, and the price level is independent of the quantity of money.
  - C) potential GDP and the price level are independent of the quantity of money.
  - D) velocity and the price level are independent of the quantity of money.
  - E) potential GDP and the quantity of money are independent of the price level.
- 23) Suppose that the Canadian dollar exchanges for 0.90 U.S. dollars and also for 0.65 Euros. A U.S. dollar exchanges for 23) \_\_\_\_\_
- A) 0.72 Euros.
  - B) 1.00 Euro.
  - C) 0.25 Euros.
  - D) 1.55 Euros.
  - E) 1.39 Euros.
- 24) Which of the following factors influence the demand for Canadian dollars? 24) \_\_\_\_\_
- A) Interest rates in Canada and other countries, and the expected future exchange rate.
  - B) The exchange rate and the world demand for Canadian exports.
  - C) The world demand for Canadian exports and Canadian demand for imports.
  - D) Both A and B.
  - E) Both B and C.
- 25) Which one of the following would result in the dollar depreciating against the Japanese yen? 25) \_\_\_\_\_
- A) an increase in the expected future Canadian exchange rate
  - B) a fall in the Canadian interest rate
  - C) a rise in the Canadian interest rate
  - D) a fall in the Japanese interest rate
  - E) an increase in the Canadian interest rate differential
- 26) If the price of a burger is \$4.50 Canadian in Toronto and \$3 U.S. in New York, and if purchasing power parity holds, then the exchange rate is 26) \_\_\_\_\_
- A) \$3 U.S. per Canadian dollar.
  - B) \$1 U.S. per Canadian dollar.
  - C) 67 cents U.S. per Canadian dollar.
  - D) \$1.5 U.S. per Canadian dollar.
  - E) none of the above.
- 27) Suppose that Canada's demand for imports decreases. All other things equal, 27) \_\_\_\_\_
- A) the demand for Canadian dollars increases.
  - B) the supply of Canadian dollars decreases and demand for Canadian dollars increases.
  - C) both the supply of and demand for Canadian dollars decreases.
  - D) the supply of Canadian dollars decreases.
  - E) the demand for Canadian dollars decreases and the supply of Canadian dollars increases.
- 28) The supply curve of dollars shifts rightward if 28) \_\_\_\_\_
- A) Canadian interest rates rise.
  - B) the Canadian exchange rate rises.
  - C) foreign interest rates rise.
  - D) the price of Canadian goods and services decreases.
  - E) none of the above.

- 29) Which of the following would cause the aggregate demand curve to keep shifting rightward year after year?
- A) A one-time tax cut.
  - B) A persistent increase in the quantity of money.
  - C) Inflation.
  - D) Excess wage demands.
  - E) A one-time increase in government expenditures on goods and services.

29) \_\_\_\_\_

Use the figure below to answer the following questions.

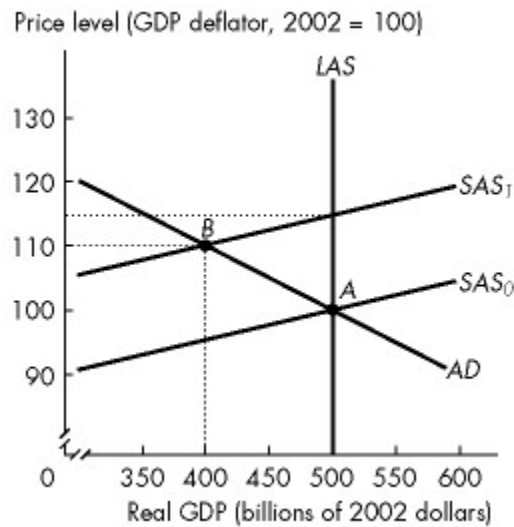


Figure 28.1.2

- 30) Refer to Figure 28.1.2. The economy is in long-run equilibrium. If the short-run aggregate supply curve shifts leftward from  $SAS_0$  to  $SAS_1$ , *ceteris paribus*, then the actual inflation rate
- A) is greater than the expected inflation rate.
  - B) depends on what happens to wage settlements.
  - C) is less than the expected inflation rate.
  - D) is the same as the expected inflation rate.
  - E) cannot be determined without more information.

30) \_\_\_\_\_

Use the figure below to answer the following questions.

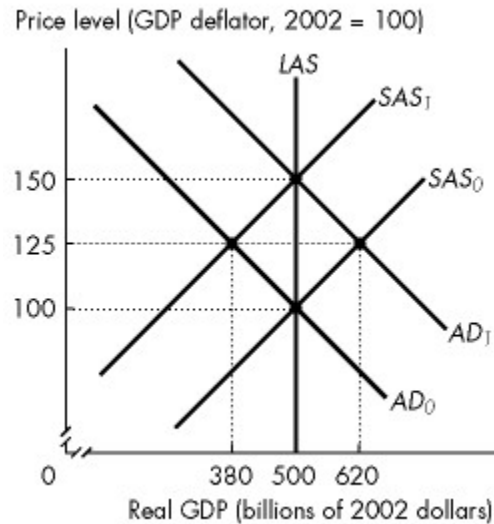


Figure 28.1.3

- 31) Refer to Figure 28.1.3. Assume that the figure illustrates an economy initially in equilibrium at the intersection of the  $SAS_0$  curve and the  $AD_0$  curve. If the aggregate demand curve is expected to shift to  $AD_1$  but remains at  $AD_0$ , the new equilibrium real GDP is \_\_\_\_\_ and the new equilibrium price level is \_\_\_\_\_.
- 31) \_\_\_\_\_
- A) \$500 billion; 100
  - B) \$380 billion; 125
  - C) \$620 billion; 125
  - D) \$500 billion; 150
  - E) \$380 billion; 100
- 32) The economy starts out at a full-employment equilibrium. Some events then occur that generate a demand-pull inflation.
- 32) \_\_\_\_\_
- All of the following events *except* an increase in \_\_\_\_\_ might cause a demand-pull inflation.
- A) government expenditure
  - B) exports
  - C) the money wage rate
  - D) transfer payments
  - E) the quantity of money
- 33) An increase in the expected rate of inflation shifts the
- 33) \_\_\_\_\_
- A) long-run Phillips curve rightward.
  - B) long-run Phillips curve leftward.
  - C) short-run Phillips curve upward.
  - D) short-run Phillips curve downward.
  - E) B and C are correct.

- 34) The Canadian long-run Phillips curve \_\_\_\_\_ when the expected inflation rate rises and \_\_\_\_\_ when the expected inflation rate falls. 34) \_\_\_\_\_  
The Canadian long-run Phillips curve \_\_\_\_\_ when the natural unemployment rate increases and \_\_\_\_\_ when the natural unemployment rate decreases.  
A) shifts rightward; shifts leftward; does not shift; does not shift  
B) does not shift; does not shift; does not shift; does not shift  
C) shifts upward; shifts downward; shifts rightward; shifts leftward  
D) shifts rightward; shifts leftward; shifts rightward; shifts leftward  
E) does not shift; does not shift; shifts rightward; shifts leftward
- 35) According to \_\_\_\_\_, the business cycle is the result of aggregate demand growing at a fluctuating rate. 35) \_\_\_\_\_  
A) the Keynesian, monetarist, and new classical cycle theories  
B) the Keynesian, monetarist, and real business cycle theories  
C) only the Keynesian and monetarist cycle theories  
D) the Keynesian cycle theory only  
E) real business cycle theory
- 36) If revenues exceed outlays, the government's budget balance is \_\_\_\_\_, and the government has a budget \_\_\_\_\_. 36) \_\_\_\_\_  
A) positive; surplus  
B) zero; deficit  
C) negative; surplus  
D) negative; deficit  
E) positive; deficit
- 37) Government debt is 37) \_\_\_\_\_  
A) the result of a rising price level.  
B) equal to revenues minus outlays.  
C) always increasing.  
D) the total amount of government borrowing.  
E) a phenomena that occurs only during times of war.
- 38) All of the following statements are true *except* 38) \_\_\_\_\_  
A) indirect taxes decreased during the 1990s due to the introduction of the GST.  
B) revenues include corporate income taxes, personal income taxes; indirect taxes and investment income.  
C) total revenues increased through the 1960s and 1980s.  
D) total revenues have no strong trends.  
E) the main source of fluctuations in revenues is corporate income taxes.
- 39) Consider all the effects on fiscal policy. A cut in the tax on capital income 39) \_\_\_\_\_  
A) shifts the AD curve rightward.  
B) shifts the SAS curve rightward.  
C) shifts the LAS curve rightward.  
D) all of the above.  
E) only B and C.

- 40) The government increases the tax rate on labour income. At the equilibrium level of employment, the before-tax wage rate \_\_\_\_\_ and the after-tax wage rate \_\_\_\_\_. Potential GDP \_\_\_\_\_. 40) \_\_\_\_\_
- A) falls; rises; does not change
  - B) rises; falls; increases
  - C) rises; falls; does not change
  - D) falls; rises; decreases
  - E) rises; falls; decreases
- 41) Which one of the following statements is true, using absolute values? The autonomous tax multiplier 41) \_\_\_\_\_
- A) is larger than the government expenditure multiplier.
  - B) has the same value as the government expenditure multiplier except during recessions.
  - C) is smaller than the government expenditure multiplier.
  - D) always equals the government expenditure multiplier.
  - E) is larger than the government expenditure multiplier during expansions.
- 42) An advantage of automatic stabilizers over discretionary fiscal policy is that 42) \_\_\_\_\_
- A) automatic stabilizers can be easily fine-tuned to move the economy to full employment.
  - B) automatic stabilizers work in recessions and expansions but discretionary fiscal policy works only in a recession.
  - C) only Parliament is involved in implementing automatic stabilizers instead of both Parliament and the Bank of Canada.
  - D) automatic stabilizers are not subject to all the same time lags that discretionary fiscal policy is.
  - E) automatic stabilizers require only a simple majority of Parliament to pass whereas discretionary fiscal policy requires a two-thirds majority to pass.
- 43) One criticism of the Bank of Canada's focus on an inflation control target is that 43) \_\_\_\_\_
- A) if inflation edges above the target range, the Bank decreases aggregate demand and could create a recession.
  - B) if inflation falls below the target range a recession will result.
  - C) the Bank rarely achieves its target.
  - D) it makes setting expectations of inflation difficult.
  - E) the Bank pays too much attention to unemployment and real GDP growth and not enough to inflation control.
- 44) As the sole issuer of Canadian money, the Bank of Canada can set any one of three variables: 44) \_\_\_\_\_
- A) the rate of inflation, the interest rate, and the unemployment rate.
  - B) the exchange rate, the interest rate, and the inflation rate.
  - C) the money base, the interest rate, and the unemployment rate.
  - D) the inflation rate, the unemployment rate, and the real economic growth rate.
  - E) the monetary base, the exchange rate, and the short term interest rate.
- 45) The operating band is 45) \_\_\_\_\_
- A) the range between the lending rate and the borrowing rate.
  - B) the target overnight interest rate plus or minus 25 basis points.
  - C) the interest rate that is established through an open market operation.
  - D) the target inflation rate plus or minus a quarter of a percentage point.
  - E) a half percentage point range in the target inflation rate.

- 46) The bank rate is the interest rate \_\_\_\_\_ 46) \_\_\_\_\_
- A) banks pay on term deposits.
  - B) banks charge their very best loan customers.
  - C) the Bank of Canada pays on reserves held by banks.
  - D) received for holding Government of Canada Treasury Bills.
  - E) the Bank of Canada charges when it lends reserves to LVTS-participating banks.
- 47) When the Bank of Canada sells securities, the interest rate \_\_\_\_\_. The Bank of Canada's assets and liabilities \_\_\_\_\_. 47) \_\_\_\_\_
- A) rises; decrease
  - B) falls; increase
  - C) rises; decrease
  - D) rises; increase during an expansion and decrease during a recession
  - E) falls; increase
- 48) Which of the following quotations *correctly* describes the impact of monetary policy on the economy? 48) \_\_\_\_\_
- A) "The tightening of money growth is helping sell goods abroad."
  - B) "House sales are down lots, due to the higher money growth."
  - C) "The extra money pumped into the economy by the central bank is creating more jobs."
  - D) "The extra money pumped into the economy by the central bank is creating less exports."
  - E) "Businesses are investing more, now that monetary policy has become less expansionary."
- 49) When the Bank of Canada fights inflation by implementing an open market operation, the supply of reserves curve shifts \_\_\_\_\_ and the supply of money curve shifts \_\_\_\_\_. 49) \_\_\_\_\_
- A) leftward; rightward
  - B) rightward; leftward
  - C) leftward; leftward
  - D) rightward; rightward
  - E) none of the above

Use the figure below to answer the following question.

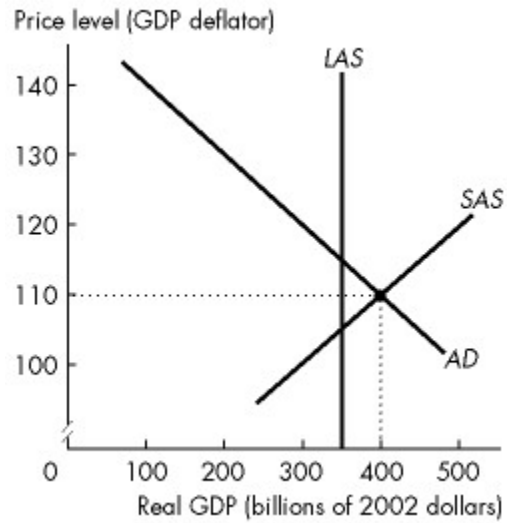


Figure 30.3.3

- 50) Refer to Figure 30.3.3. The figure shows the economy of Freezone. Potential GDP is \$350 billion. To return the economy to full employment, the central bank can \_\_\_\_\_ the overnight rate and \_\_\_\_\_ securities. 50) \_\_\_\_\_
- A) lower; sell
  - B) lower; buy
  - C) raise; buy
  - D) raise; sell
  - E) lower; not change its holdings of

- 1) E
- 2) C
- 3) A
- 4) D
- 5) E
- 6) E
- 7) A
- 8) D
- 9) C
- 10) A
- 11) D
- 12) A
- 13) B
- 14) B
- 15) A
- 16) A
- 17) D
- 18) B
- 19) C
- 20) A
- 21) A
- 22) A
- 23) A
- 24) D
- 25) B
- 26) C
- 27) D
- 28) C
- 29) B
- 30) C
- 31) B
- 32) C
- 33) C
- 34) E
- 35) A
- 36) A
- 37) D
- 38) E
- 39) D
- 40) E
- 41) C
- 42) D
- 43) A
- 44) E
- 45) B
- 46) E
- 47) A
- 48) C
- 49) C
- 50) D