

ECONOMICS 1022B-002/004

Department of Economics
Western University

Jeannie Gillmore

MIDTERM 1

February 8, 2014

INSTRUCTIONS:

1. The examination begins at **4:00 p.m.** and ends at **6:00 p.m.**
2. Check that your examination paper contains 14 pages.
3. Use a **BLACK PENCIL** to complete your Scantron Form.

Print your **NAME** and complete your **SIGNATURE**.

Enter your **STUDENT NUMBER**.

Enter your **SECTION NUMBER**, which is either 002 or 004.

4. **Please hand in Scantron Form only.**
5. You may use a calculator but your cell phone may not be used as a calculator.
6. Your cell phone must be switched off and left in your bag at the front of the exam room.
7. You must remain in the examination room until you have finished the exam. No breaks outside of the examination room will be allowed.

NOTE: QUESTIONS ARE PRINTED ON BOTH SIDES OF EACH PAGE

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Which one of the following is *false*?
- A) $X - M = Y - C - I - G$
 - B) $Y = C + I + G + X - M$
 - C) $Y = C + I + G + M - X$
 - D) $Y + M = C + I + G + X$
 - E) $Y - C - I - G - X + M = 0$
- 2) An art collector recently sold a piece of pottery for \$300. He had purchased it for \$200 two years earlier. How will the most recent sale affect GDP?
- A) GDP will increase by \$300.
 - B) GDP will not change.
 - C) GDP 2 years ago must be adjusted downwards by \$200, and current GDP will rise by \$300.
 - D) GDP will increase by \$100.
 - E) GDP will increase by \$200.
- 3) How much would the production of a kayak add to GDP if the shell costs \$250, the paint costs \$20, the finisher costs \$35, the manufacturer sold it to the dealer for \$500, and the dealer sold it to his customer for \$800?
- A) \$500
 - B) \$800
 - C) \$1,300
 - D) \$1,605
 - E) \$305

Use the table below to answer the following question.

Table 1

Government expenditures on goods and services	\$ 500
Wages, salaries, and supplementary labour income	2,000
Depreciation	400
Investment	400
Consumption expenditure	2,200
Net exports	-50
Indirect taxes	150
Statistical discrepancy	0

- 4) Refer to Table 1. Net domestic income at market prices equals
- A) \$2,650.
 - B) \$3,050.
 - C) \$3,150.
 - D) \$3,400.
 - E) \$4,650.
- 5) Nominal GDP will increase
- A) only if both the average level of prices rises and the quantity of goods and services produced increases.
 - B) if either the average level of prices rises or the quantity of goods and services produced increases.
 - C) only if the average level of prices rises.
 - D) only if the unemployment rate rises.
 - E) only if the quantity of goods and services produced increases.
- 6) A south sea island produces only coconuts.
- In 2005, the price of a coconut is \$2.00 and the quantity produced is 400.
In 2012, the price of a coconut is \$1.50 and the quantity produced is 350.
2005 is the reference base year.
- Real GDP in 2012 in terms of base-year prices is
- A) \$700.
 - B) \$525.
 - C) \$800.
 - D) \$600.
 - E) \$750.

- 7) The existence of which one of the following is *not* a reason for the fact that GDP gives an incorrect estimate of the value of total output in the economy?
- A) leisure time
 - B) social justice
 - C) political freedom
 - D) taxes
 - E) health and life expectancy
- 8) All of the following statements are true *except*
- A) the Lucas wedge equals real GDP minus potential GDP.
 - B) the Lucas wedge is the dollar value of the accumulated gap between what real GDP per person would have been if the 1960s growth rate had persisted and what real GDP per person turned out to be.
 - C) the Lucas wedge arises from the slowdown of productivity growth that began during the 1970s.
 - D) real GDP per person was \$30,700 per year lower in 2010 than it would have been with no growth slowdown.
 - E) the Lucas wedge accumulated to \$400,000 per person by 2010.

Use the table below to answer the following questions.

Table 2

Item	2011 Quantity	2011 Price	2012 Quantity	2012 Price
CD players	10	\$100	15	\$110
bananas	50 bunches	\$2	100 bunches	\$3

- 9) Refer to Table 2. Calculating chained-dollar real GDP, real GDP in 2012 increased by
- A) 56 percent.
 - B) 55.25 percent.
 - C) 30 percent.
 - D) 75 percent.
 - E) 54.5 percent.
- 10) Refer to Table 2. Chained-dollar real GDP in 2012 is
- A) \$1665.
 - B) \$1950.5.
 - C) \$1250.
 - D) \$1100.
 - E) \$1707.75.

- 11) If the people who take early retirement are not counted in the working-age population, then
- A) the unemployment rate would be higher.
 - B) the labour force participation rate would be less.
 - C) the labour force participation rate would be higher.
 - D) the unemployment rate would be lower.
 - E) none of the above.
- 12) If the labour force participation rate is rising and the working-age population is not changing, then the
- A) number of unemployed people is falling and the size of the labour force is rising.
 - B) number of employed people must be increasing.
 - C) number of unemployed people is rising and the size of the labour force is falling.
 - D) size of the labour force is falling.
 - E) size of the labour force is rising.
- 13) Since 1960, Canadian labour force participation rate has _____ and the unemployment rate has _____.
- A) trended higher; trended lower
 - B) varied over the business cycle; trended higher
 - C) trended higher; trended higher
 - D) trended higher; varied over the business cycle
 - E) trended lower; varied over the business cycle
- 14) In a country with a working-age population of 30 million, 18 million are employed, 2 million are unemployed, and 2 million of the employed are working part-time, half of whom wish to work full-time. The employment-to-population ratio is
- A) 60 percent.
 - B) 53.3 percent.
 - C) 73.3 percent.
 - D) 66.7 percent.
 - E) none of the above.
- 15) In a country with a working-age population of 30 million, 18 million are employed, 2 million are unemployed, and 2 million of the employed are working part-time, half of whom wish to work full-time. If 1 million of those unemployed are cyclically unemployed, what is the natural unemployment rate?
- A) 5 percent
 - B) 5.6 percent
 - C) 6.7 percent
 - D) 11.1 percent
 - E) none of the above

- 16) A zero percent unemployment rate
- A) would alleviate scarcity.
 - B) is one of the economic goals of the Canadian government.
 - C) is not consistent with the notion of full employment.
 - D) was last achieved during World War II when everyone was willing to work at the going wage rate to end the war.
 - E) is the only efficient unemployment rate.
- 17) The official unemployment rate might underestimate the underutilization of labour resources for all of the following reasons *except* _____.
- A) it excludes part-time workers who want full-time jobs
 - B) it excludes people who are waiting to be called back to jobs from which they have been laid off
 - C) it excludes marginally attached workers
 - D) it excludes discouraged workers
 - E) the official unemployment rate excludes all of the above
- 18) In China, suppose that the price level was 100 in 2007, 110 in 2008, 120 in 2009, and 130 in 2011. Over this time period,
- A) the inflation rate increased.
 - B) zero inflation occurred.
 - C) the inflation rate was positive.
 - D) the inflation rate decreased.
 - E) Both C and D are correct.
- 19) The CPIC _____.
- A) overcomes the sources of bias in the CPI by always using discount store prices
 - B) does not overcome the source of bias in the CPI
 - C) overcomes the sources of bias in the CPI by eliminating measures of the goods and services with the most volatile prices
 - D) overcomes the sources of bias in the CPI by giving extra weight to the measures of the goods and services with the most volatile prices
 - E) overcomes the sources of bias in the CPI by incorporating substitutions and using current and previous period quantities
- 20) Of the following sequences of price levels, which correctly represents a 5 percent inflation rate?
- A) 95, 100, 105, 110
 - B) 100, 105, 105, 105
 - C) 100, 100, 100, 100
 - D) 100, 105, 110, 115
 - E) 100, 105, 110.25, 115.76

Use the table below to answer the following question.

Table 3
Data From Southton

Item	Price (dollars)	Price (dollars)	Quantity (number)	Quantity (number)
	Base	Current	Base	Current
Rubber				
Ducks	1.00	1.25	100	100
Beach Towels	9.00	6.00	12	14

- 21) Refer to Table 3. From the data in Table 3, what is Southton's consumer price index for the current year?
- A) 100.5
 - B) 94.7
 - C) 112
 - D) 105.6
 - E) 100
- 22) Suppose a country is producing \$20 million of real GDP. If the economy grows at 10 percent per year, approximately how many years will it take for real GDP to grow to \$80 million?
- A) 3.5 years
 - B) 14
 - C) 30
 - D) 7
 - E) 4
- 23) In 2010, Northland had real GDP of \$4.21 billion and a population of 2.98 million. In 2011, real GDP was \$4.59 billion and population was 2.97 million. Between 2010 and 2011, Northland's standard of living _____.
- A) decreased
 - B) might have increased, decreased, or remained unchanged
 - C) doubled.
 - D) did not change
 - E) increased

- 24) The gap between real GDP per person in Canada and Hong Kong has _____ since 1960. During this period, the growth rate of real GDP per person in Canada has been _____ than in Hong Kong.
- A) reversed; faster
 - B) reversed; slower
 - C) increased; faster
 - D) decreased; faster
 - E) remained constant; equal
- 25) Canada's economic growth rate was highest in which of the following decades?
- A) the 1970s
 - B) the 1960s
 - C) the 1980s
 - D) the 1930s
 - E) the 1990s

Use the table below to answer the following question.

Table 4

Real wage rate (2002 dollars per hour)	Quantity of labour demanded (billions of hours per year)	Quantity of labour supplied (billions of hours per year)
15	70	10
20	60	20
25	50	30
30	40	40
35	30	50

Real GDP (trillions of 2002 dollars per year)	Quantity of labour (billions of hours per year)
3	20
9	30
14	40
18	50
21	60

- 26) Refer to Table 4. The tables show the labour market and the production function schedule for the country of Pickett. An increase in population changes the quantity of labour supplied by 20 billion hours at each real wage rate. Potential GDP _____.
- A) increases to \$20 trillion.
 - B) increases to \$50 trillion.
 - C) increases to \$18 trillion.
 - D) does not change.
 - E) decreases to \$3 trillion.
- 27) *Ceteris paribus*, an increase in labour productivity results in a
- A) higher real wage rate and higher potential GDP per hour of labour.
 - B) lower real wage rate and lower potential GDP per hour of labour.
 - C) constant real wage rate in the long run.
 - D) lower real wage rate and higher potential GDP per hour of labour.
 - E) higher real wage rate and lower potential GDP per hour of labour.

- 28) Which of the following statements regarding human capital is *incorrect*?
- A) The accumulation of human capital is the source of both increased labour productivity and technological advance.
 - B) Education is the only vehicle for the creation of human capital because training simply reinforces what has already been learned.
 - C) Human capital is the accumulated skill and knowledge of human beings.
 - D) Writing and mathematics, the most basic of human skills, are crucial elements in economic progress.
 - E) An increase in human capital increases potential GDP.
- 29) Factors that influence labour productivity include _____.
- A) the demand for labour, the real wage rate, and technology
 - B) the labour demand curve
 - C) physical capital, human capital, and technology
 - D) physical capital, the real wage rate, and technology
 - E) the inflation rate, the real wage rate, and the exchange rate
- 30) According to Thomas Robert Malthus, _____.
- A) increases in real GDP per person are only temporary
 - B) technological advances lead to permanent increases in real GDP per person
 - C) labour productivity increases continuously
 - D) knowledge capital does not experience diminishing returns
 - E) the population growth rate is fixed
- 31) Suppose a bond promises to pay its holder \$100 a year forever. The interest rate on the bond rises from 4 percent to 5 percent. The price of the bond _____.
- A) rises from \$2,000 to \$2,500
 - B) falls from \$25,000 to \$20,000
 - C) falls from \$2,500 to \$2,000
 - D) rises from \$20,000 to \$25,000
 - E) does not change. Bond prices are constant.
- 32) At the beginning of the year, Tom's Tubes had a capital stock of 5 tube-inflating machines. During the year, Tom scrapped 2 old machines and purchased 3 new machines. Tom's gross investment for the year totaled
- A) 2 machines.
 - B) 6 machines.
 - C) 8 machines.
 - D) 1 machine.
 - E) 3 machines.

- 33) In 2011, Country A has net taxes of \$30 million and government expenditures of \$35 million. Private saving in Country A is \$5 million and consumption expenditure is \$80 million. The government of Country A is running a budget _____ and national saving is _____.
- A) surplus; \$25 million
 - B) deficit; \$5 million
 - C) deficit; -\$5 million
 - D) surplus; \$5 million
 - E) deficit; zero
- 34) What is the effect of a decrease in expected profit?
- A) The demand curve for loanable funds shifts rightward and the real interest rate rises.
 - B) The real interest rate rises as saving increases.
 - C) A movement down along the demand curve for loanable funds occurs.
 - D) The demand curve for loanable funds shifts leftward and the real interest rate falls.
 - E) The supply curve of loanable funds shifts rightward and the nominal interest rate rises.

Use the table below to answer the following question.

Table 5
Data from Northland

Real interest rate (percent per year)	Demand for Loanable Funds (billions of dollars)	Supply of Loanable Funds (billions of dollars)
3	160	40
4	140	60
5	120	80
6	100	100
7	80	120
8	60	140

- 35) Refer to Table 5. Table 5 shows the market for loanable funds in Northland. The government budget is balanced. If the government moves from a balanced budget to a surplus of \$20 billion, the new equilibrium has a real interest rate of _____ percent and quantity of loanable funds traded equal to _____.
- A) 5.5; \$110 billion
 - B) 6; \$120 billion
 - C) 6.5; \$110 billion
 - D) 5.5; \$90 billion
 - E) 6.5; \$90 billion

Refer to the table below to answer the following question.

Table 6

Real interest rate (percent per year)	Loanable funds demanded (trillions of 2002 dollars)	Loanable funds supplied (trillions of 2002 dollars)
4	7.5	4.5
5	7.0	5.0
6	6.5	5.5
7	6.0	6.0
8	5.5	6.5
9	5.0	7.0
10	4.5	7.5

- 36) Refer to Table 6. The table shows the demand for loanable funds schedule and the private supply of loanable funds schedule when the government's budget is balanced. If the Ricardo-Barro effect occurs, and if the government budget deficit is \$2.0 trillion, the real interest rate is _____ percent a year and the quantity of investment is _____ trillion.
- A) 9.0; \$7.0
 - B) 5.0; \$5.0
 - C) 3.0; \$7.5
 - D) 5.0; \$7.0
 - E) 7.0; \$6.0
- 37) The government of Greece is running a large budget deficit. With no Ricardo-Barro effect, which of the following events will occur?
- I. The supply curve of loanable funds will shift leftward.
 - II. A higher real interest rate crowds out investment.
 - III. Saving increases.
- A) I, II, and III
 - B) II only
 - C) I only
 - D) III only
 - E) II and III only

- 38) In an individual economy that is integrated into the global market, the demand for loanable funds is determined by the _____ demand and the supply of loanable funds is determined by the _____ supply.
- A) country's; country's
 - B) country's; world's
 - C) world's; World Bank's
 - D) world's; world's
 - E) world's; country's
- 39) An increase in the government budget deficit _____. If the country is an international borrower, the government budget deficit _____. If the country is an international lender, the government budget deficit _____.
- A) increases the country's supply of loanable funds; decreases foreign lending; increases foreign borrowing
 - B) increases the country's demand for loanable funds; increases foreign borrowing; decreases foreign lending
 - C) decreases the country's demand for loanable funds; decreases foreign lending; increases foreign borrowing
 - D) decreases the country's supply of loanable funds; increases foreign borrowing; decreases foreign lending
 - E) increases the country's demand for loanable funds; decreases foreign borrowing; increases foreign lending
- 40) A very small country is a net foreign lender 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 lending _____.
- A) does not change; does not change
 - B) does not change; increases
 - C) does not change; decreases
 - D) increases; decreases
 - E) increases; does not change
- 41) The higher and more unpredictable the changes in the monetary unit, the
- A) lower the opportunity cost of using it as a store of value.
 - B) lower the opportunity cost of using it as a medium of exchange.
 - C) higher the opportunity cost of using it as a store of value.
 - D) lower the opportunity cost of using it as a standard of deferred payment.
 - E) less likely barter exchange will replace it.

42) Consider the following data from the economy of Adanac:

- Currency outside banks: \$15 billion
- Personal and non-personal chequable deposits: \$40 billion
- Personal non-chequable deposits: \$50 billion
- Non-personal non-chequable deposits: \$125 billion
- Fixed term deposits: \$200 billion

The value of M1 is \$ _____ billion and the value of M2 is \$ _____ billion.

- A) 110; 235
- B) 55; 430
- C) 105; 230
- D) 55; 230
- E) 60; 430

43) The reserves of a bank include

- A) the cash in its vault plus any deposits held on account with the Bank of Canada plus the value of any government bonds that it holds.
- B) all of its common stock holdings, the cash in its vault, and all deposits held on account with the Bank of Canada.
- C) the cash in its vault plus any deposits held on account at the Bank of Canada.
- D) the cash in its vault plus the value of its chequable deposits.
- E) the cash in its vault plus any gold held for the bank at the Bank of Canada.

44) The Monetary Base consists of the sum of

- A) Bank of Canada notes held outside the Bank of Canada, bank deposits at the Bank of Canada, and coins held by banks and the public.
- B) Bank of Canada notes held within the Bank of Canada, bank deposits at the Bank of Canada, and coins held by banks.
- C) Bank of Canada notes held outside the Bank of Canada, bank deposits at the Bank of Canada, and notes and coins held by banks.
- D) Bank of Canada notes held outside the Bank of Canada, the desired reserves of chartered banks, and coins held by banks.
- E) Bank of Canada notes held within the Bank of Canada, bank deposits at the Bank of Canada, and coins held by banks and the public.

45) When the interest rate falls in the money market, the quantity of money demanded _____ and the quantity of money supplied _____.

- A) remains unchanged; decreases
- B) increases; remains unchanged
- C) decreases; increases
- D) increases; decreases
- E) remains unchanged; remains unchanged

- 46) 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) the number of consumers who apply for loans.
 - C) bank managers' decisions.
 - D) the quantity of bank notes released by the Bank of Canada.
 - E) the monetary base, desired reserves, and desired currency holdings.
- 47) If the interest rate is below the equilibrium, how is equilibrium achieved in the money market?
- A) People buy goods to get rid of their excess money, lowering the price of goods and raising the interest rate.
 - B) People sell bonds to try and raise more money, lowering the price of bonds and raising the interest rate.
 - C) People sell goods to get rid of their excess money, lowering the price of goods and raising the interest rate.
 - D) People buy bonds to get rid of their excess money, raising the price of bonds and raising the interest rate.
 - E) People sell bonds to get rid of their excess money, lowering the price of bonds and raising the interest rate.
- 48) The opportunity cost of holding currency is
- A) the price level.
 - B) the inflation rate.
 - C) consumption given up.
 - D) the real interest rate.
 - E) the nominal interest rate.
- 49) GDP is \$2,000 billion, the price level is 100, and the velocity of circulation is 5. The quantity of money is
- A) \$2,000 billion.
 - B) \$20 billion.
 - C) \$10,000 billion.
 - D) \$500 billion.
 - E) \$400 billion.
- 50) In the United Kingdom, the currency drain ratio is 0.38 and the desired reserve ratio is 0.002. The U.K. money multiplier is
- A) 3.61.
 - B) 2.62.
 - C) 2.77.
 - D) 0.28.
 - E) 0.38.

Answer Key

Testname: MT1FEB14

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