

Exam

Name _____

Econ 1010 M Macro Economics Winter 2013 A

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

Use the figure below to answer the following questions.

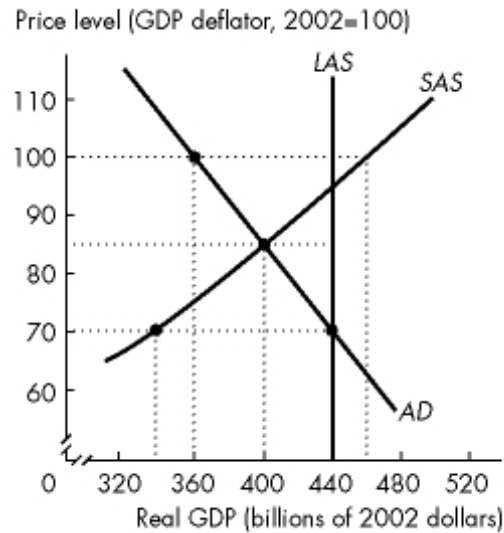


Figure 26.3.1

- 1) Refer to Figure 26.3.1. Econoworld is at its short-run macroeconomic equilibrium. There is a difference between _____ real GDP and potential GDP of \$_____ billion. 1) _____
- A) above full-employment equilibrium; 40
 - B) above full-employment equilibrium; 20
 - C) below full-employment equilibrium; 40
 - D) full-employment equilibrium; 0
 - E) below full-employment equilibrium; 20
- 2) Refer to Figure 26.3.1. As Econoworld automatically adjusts to long-run equilibrium, the 2) _____
- A) AD curve shifts leftward.
 - B) LAS curve shifts leftward.
 - C) SAS curve shifts rightward.
 - D) SAS curve shifts leftward.
 - E) AD curve shifts rightward.
- 3) A recessionary gap is the amount by which 3) _____
- A) the price level must adjust to achieve full employment.
 - B) demand will increase to achieve full employment at a given price level.
 - C) potential GDP exceeds real GDP.
 - D) real GDP exceeds potential GDP.
 - E) the supply curve must increase to achieve full employment at a given price level.

Use the information below to answer the following questions.

Fact 3.5.1

The market for coffee is initially in equilibrium. Pepsi is a substitute for coffee; cream is a complement of coffee. Consider the market for coffee. Assume that all *ceteris paribus* assumptions continue to hold *except* for the event listed.

- 4) Refer to Fact 3.5.1. An increase in the price of Pepsi, a substitute for coffee will 4) _____
 A) decrease the price and the quantity supplied of coffee.
 B) decrease the price and the quantity demanded of coffee.
 C) increase the price and the quantity supplied of coffee.
 D) increase the price and the quantity demanded of coffee.
 E) cause none of the above.
- 5) Which of the following events would shift the consumption function upward? 5) _____
 A) a decrease in wealth
 B) a decrease in disposable income
 C) an increase in wealth
 D) a decrease in expected future disposable income
 E) an increase in disposable income
- 6) Real GDP will increase only if the 6) _____
 A) quantity of goods and services produced increases.
 B) employment rate rises.
 C) employment rate falls.
 D) unemployment rate rises.
 E) average level of prices rises.

Use the table below to answer the following questions.

Table 20.2.1
Data From Eastland

Wages, salaries, and supplementary labour income	800
Farmers' income	80
Government expenditures on goods and services	240
Depreciation	240
Business investment	400
Personal income taxes net of transfer payments	140
Corporate profits	80
Indirect taxes	120
Net exports	80
Consumption expenditure	640
Interest and miscellaneous investment income	100

- 7) Refer to Table 20.2.1. From the data in the table, what is total income in Eastland? 7) _____
 A) \$1,420. B) \$1,360. C) \$1,280. D) \$1,120. E) \$1,180.

- 8) 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 labour force is 8) _____
A) 30 million. B) 18 million. C) 20 million. D) 22 million E) 16 million.
- 9) Which of the following quotations illustrates the idea of the multiplier? 9) _____
A) "Higher expected profits are leading to higher investment spending by business, and will lead to higher consumer spending."
B) "Taking the grain elevator out of our small town will destroy 300 jobs."
C) "The new stadium will generate \$200 million in spinoff spending."
D) "The projected cuts in government jobs will hurt the local retail industry."
E) all of the above
- 10) 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? 10) _____
A) \$1,300. B) \$500. C) \$800. D) \$305. E) \$1,605.
- 11) Disposable income is 11) _____
A) aggregate income minus transfer payments.
B) aggregate income plus transfer payments.
C) aggregate income minus taxes.
D) used for consumption only.
E) aggregate income minus taxes plus transfer payments.

Use the figure below to answer the following questions.

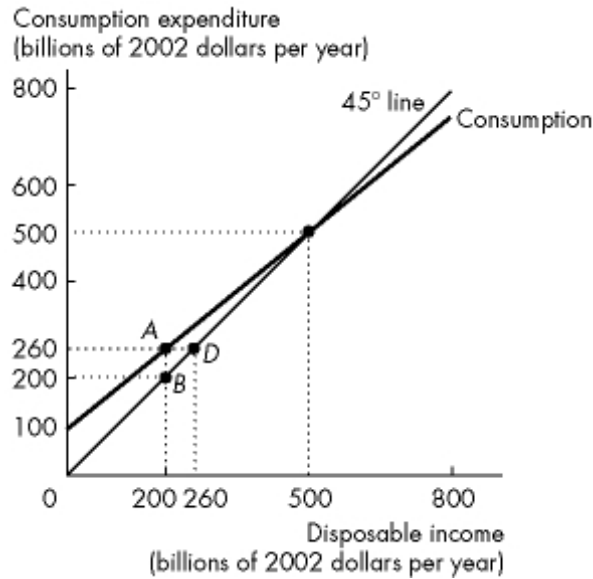


Figure 27.1.1

This figure describes the relationship between consumption expenditure and disposable income for a model economy.

- 12) Refer to Figure 27.1.1. When disposable income is equal to \$200 billion, saving is 12) _____
- A) \$60 billion.
 - B) \$150 billion.
 - C) zero.
 - D) \$200 billion.
 - E) - \$60 billion.
- 13) Which one of the following people would be counted as unemployed in Canada? 13) _____
- A) Kanhaya has stopped looking for work since he was unable to find a suitable job during a two-month search.
 - B) Taylor is a homemaker.
 - C) Sharon recently began looking for work after staying at home for 10 years to look after her children.
 - D) Maurice is on a 2 month vacation out of the country but is still looking for a job using the internet.
 - E) Doris works only 5 hours a week but is looking for a full-time job.
- 14) The aggregate expenditure curve and the aggregate demand curve are 14) _____
- A) the same curve, just with different names.
 - B) not related at all.
 - C) linked because if the price level rises, the aggregate expenditure curve shifts downward, and there is a movement down along the aggregate demand curve.
 - D) linked because if the price level rises, the aggregate expenditure curve shifts downward, and there is a movement up along the aggregate demand curve.
 - E) linked because if the price level rises, the aggregate expenditure curve shifts downward, and the aggregate demand curve shifts leftward.

- 15) A recession is a period with _____ 15) _____
A) positive growth rate in real GDP that lasts at least one quarter.
B) positive growth rate in real GDP that lasts at least two quarters.
C) a slowdown in real GDP growth but not necessarily negative real GDP growth.
D) negative growth rate in real GDP that lasts at least two quarters.
E) negative growth rate in real GDP that lasts at least one quarter.
- 16) A rise in the price level _____. 16) _____
A) shifts the *AE* curve downward and brings a movement up along the *AD* curve
B) shifts the *AE* curve downward and shifts the *AD* curve rightward
C) shifts the *AD* curve rightward and brings a movement up along the *AE* curve
D) shifts the *AE* curve upward and brings a movement down along the *AD* curve
E) shifts the *AD* curve leftward and brings a movement down along the *AE* curve
- 17) Economic growth results when there are increases in _____ 17) _____
A) long-run aggregate supply.
B) the real wage rate.
C) aggregate demand.
D) the inflationary gap.
E) short-run aggregate supply resulting from falling money wage rates and falling factor prices.
- 18) A _____ macroeconomist believes that the economy is self-regulating and always at full employment. 18) _____
A _____ macroeconomist believes the economy requires active help from fiscal policy and monetary policy to maintain full employment.
A) classical; Keynesian
B) Keynesian; new Keynesian
C) new classical; monetarist
D) classical; monetarist
E) monetarist; classical
- 19) If the CPI was 140 at the end of 2007 and 150 at the end of 2008, what was the inflation rate in 2008? 19) _____
A) 6.67 percent
B) 7.14 percent
C) 8 percent
D) 10 percent
E) 6.25 percent

Use the table below to answer the following questions.

Table 20.2.3

Item	Millions of dollars
Wages paid to labour	800,000
Consumption expenditure	650,000
Taxes paid on wages	200,000
Government payments to support unemployed, sick, & aged	50,000
Firms' profits	200,000
Investment	250,000
Taxes paid on profits	50,000
Government expenditure on goods and service	200,000
Exports	250,000
Saving	200,000
Imports	300,000

- 20) Refer to Table 20.2.3. Consider the economy represented in the table. GDP in this economy, in millions of dollars, is 20) _____
- A) \$1,050,000.
 - B) \$850,000.
 - C) \$1,350,000.
 - D) \$1,150,000
 - E) none of the above.
- 21) Everything else remaining the same, which one of the following would increase equilibrium real GDP? 21) _____
- A) an increase in saving
 - B) an increase in taxes
 - C) a decrease in investment
 - D) an increase in exports
 - E) a decrease in exports
- 22) If the price level rises, then the wealth effect leads to 22) _____
- A) an increase in real wealth, an increase in current consumption expenditure, and an increase in saving.
 - B) an increase in real wealth, an increase in current consumption expenditure, and a decrease in saving.
 - C) a decrease in real wealth, an increase in current consumption expenditure, and an increase in saving.
 - D) a decrease in real wealth, a decrease in current consumption expenditure, and an increase in saving.
 - E) a decrease in real wealth, an increase in current consumption expenditure, and a decrease in saving.

Use the figure below to answer the following questions.

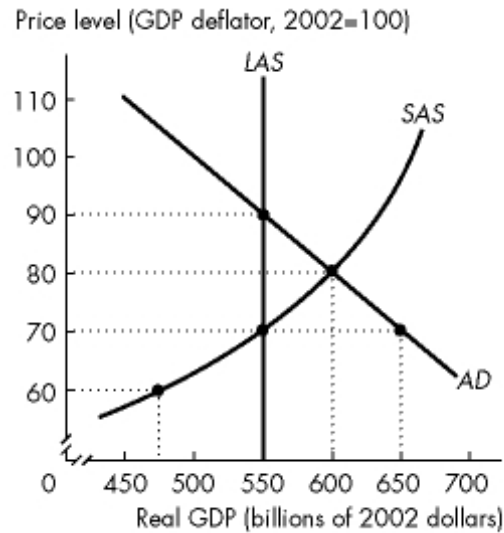


Figure 26.3.2

- 23) Refer to Figure 26.3.2. When the economy of Mythlo is in short-run macroeconomic equilibrium, the price level is _____
 A) 65. B) 80. C) 70. D) 75. E) 95.
- 24) Refer to Figure 26.3.2. If the economy of Mythlo automatically adjusts to long-run equilibrium, then _____
 A) potential GDP decreases.
 B) real GDP is \$600 billion.
 C) the price level rises to 90.
 D) the actual unemployment rate exceeds the natural unemployment rate.
 E) the SAS curve shifts rightward.
- 25) The short-run aggregate supply curve indicates _____
 A) the relationship between the price level and the natural unemployment rate.
 B) the relationship between the quantity of real GDP supplied and the price level when the money wage rate, the prices of other resources, and potential GDP remain constant.
 C) the relationship between the price level and real GDP demanded by consumers, investors, governments, and net exporters.
 D) the relationship between the purchasing power of wages and the quantity of labour supplied by households.
 E) the various quantities of real GDP producers supply at different income levels.
- 26) A technological advance shifts _____
 A) both SAS and LAS leftward.
 B) both SAS and AD rightward.
 C) SAS rightward but leaves LAS unchanged.
 D) both SAS and LAS rightward.
 E) LAS rightward but leaves SAS unchanged.

Use the table below to answer the following question(s).

Table 27.3.1

The following table shows the relationship between aggregate planned expenditure and GDP in the hypothetical economy of Econoworld.

Real GDP (billions of 2002 dollars)	Aggregate planned expenditure (billions of 2002 dollars)
0	100
200	260
400	420
600	580
800	740

- 27) Refer to Table 27.3.1. If investment increases by \$25 billion, the real GDP becomes _____
A) \$600 billion.
B) \$725 billion.
C) \$675 billion.
D) \$625 billion.
E) \$525 billion.
- 28) Since non-market exchanges are excluded from measures of GDP, the GDP measure tends to _____
A) be of little significance in determining the total production of an economy.
B) place too much value on market transactions.
C) be of little use to anyone but market economists.
D) underestimate the total production of an economy.
E) overestimate the total production of an economy.
- 29) Full employment does not mean that there is zero unemployment because _____
A) of the existence of discouraged workers.
B) of unrealistic wage expectations.
C) business fluctuations are inevitable.
D) some cyclical unemployment is always present.
E) some frictional unemployment is always present.

Use the figure below to answer the following questions.

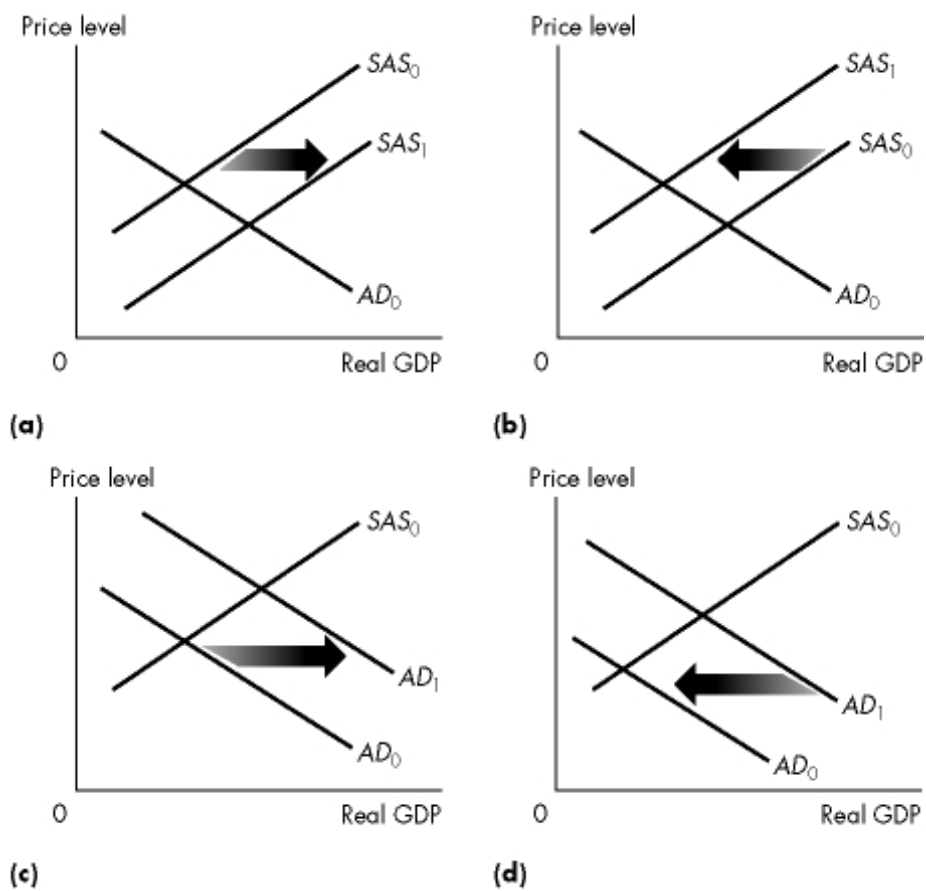


Figure 26.2.1

30) Refer to Figure 26.2.1. Which graph illustrates what happens when government expenditure increases?

30) _____

- A) (a)
- B) (b)
- C) (c)
- D) (d)
- E) None of the above

Use the figure below to answer the following questions.

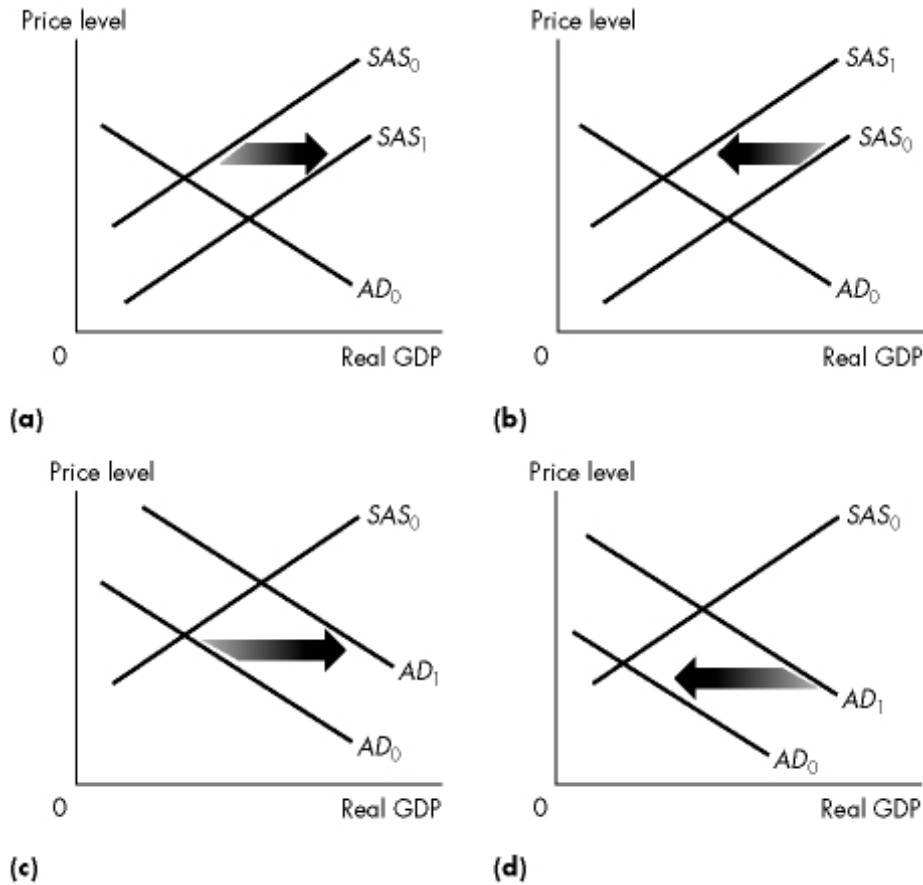


Figure 26.1.1

- 31) Refer to Figure 26.1.1. Which graph illustrates what happens when factor prices decrease? 31) _____
 A) (a) B) (b) C) (c) D) (d) E) (a) and (b)
- 32) The reference base period is 2002. A consumer price index of 122 in 2009 means that 32) _____
 A) the average of the prices paid by urban consumers for a fixed market basket of consumer goods and services was 22 percent higher in 2009 than it was on average during 2002.
 B) the market basket of consumer goods that cost \$122 in 2002 can be purchased for \$100 in 2009.
 C) prices of consumer goods have more than doubled.
 D) prices of consumer goods have gone up by a factor of 12.2.
 E) if the price of a good was \$100 in 2002, its price in 2009 is \$122.
- 33) The quantity of real GDP demanded is the sum of real consumption expenditure (C), investment (I), 33) _____
 A) and government expenditure (G).
 B) government expenditure (G), exports (X), and imports (M).
 C) government expenditure (G), and exports (X) minus imports (M).
 D) exports (X), and imports (M).
 E) and exports (X) minus imports (M).

Use the figure below to answer the following question.

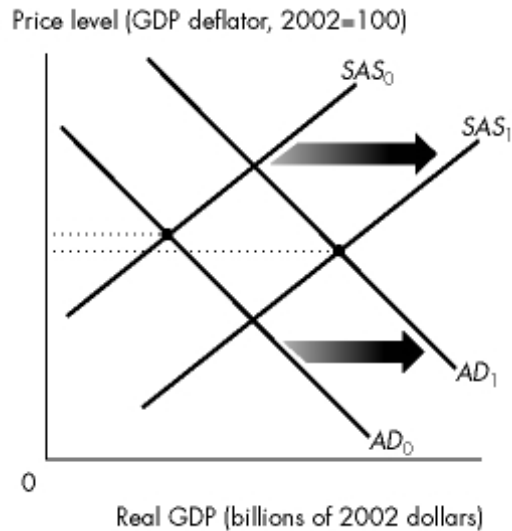


Figure 26.3.4

- 34) Refer to Figure 26.3.4. The changes represented 34) _____
- A) lead to an inflationary gap.
 - B) increase real GDP.
 - C) cannot occur because aggregate demand and short-run aggregate supply cannot change at the same time.
 - D) cause a proportionate increase in long run aggregate supply.
 - E) lead to a recessionary gap.
- 35) Which of the following situations illustrates how fiscal policy can influence aggregate demand? 35) _____
- A) The exchange rate value of the Canadian dollar rises. As a result, people living near the US-Canada border increase their imports of goods and net exports decrease.
 - B) Investors, anticipating an erosion of financial wealth due to inflation, decide to save more. As a result, aggregate demand decreases.
 - C) The Bank of Canada raises interest rates so people plan to buy less consumer durables. As a result, the aggregate demand curve shifts leftward.
 - D) The government reduces the goods and services tax. As a result, consumption expenditure increases and aggregate demand increases.
 - E) Both A and C are examples of fiscal policy.
- 36) If a household's disposable income increases from \$12,000 to \$22,000 and at the same time its consumption expenditure increases from \$4,000 to \$9,000, then 36) _____
- A) the marginal propensity to consume over this range is negative.
 - B) the slope of the consumption function is 0.6.
 - C) the household is dissaving.
 - D) the marginal propensity to save over this range is negative.
 - E) the slope of the consumption function is 0.5.

- 37) "There can be too much of a good thing." This statement suggests that
- A) a good may be produced to the point where its marginal cost exceeds its marginal benefit.
 - B) choices made in self-interest cannot be applied to many economic decisions.
 - C) certain goods and services such as education and health care are inherently desirable and should be produced regardless of costs and benefits.
 - D) a good may be produced to the point where its marginal benefit exceeds its marginal cost.
 - E) a good may be produced to the point where its marginal benefit is equal to its marginal cost.

37) _____

Use the figure below to answer the following questions.

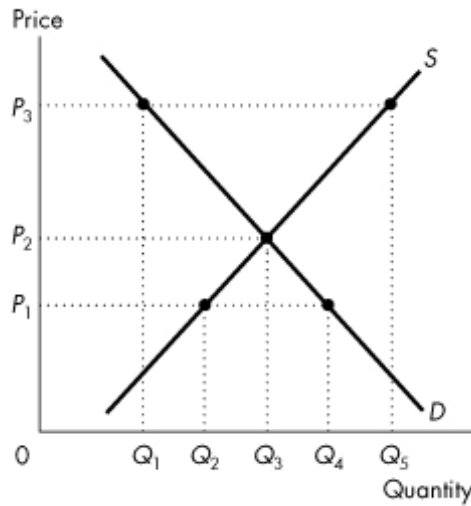


Figure 3.4.1

- 38) At price P_3 in Figure 3.4.1,
- A) there is a shortage in the amount of $Q_5 - Q_1$.
 - B) there is a surplus in the amount of $Q_5 - Q_1$.
 - C) this market is in equilibrium.
 - D) there is a tendency for the price to rise.
 - E) equilibrium quantity is Q_5 .
- 39) If A and B are complements in production and the price of A falls, the supply of B
- A) decreases and the price of B rises.
 - B) increases and the price of B rises.
 - C) increases and the price of B falls.
 - D) decreases and the price of B falls.
 - E) does not change.

38) _____

39) _____

Use the figure below to answer the following question(s).

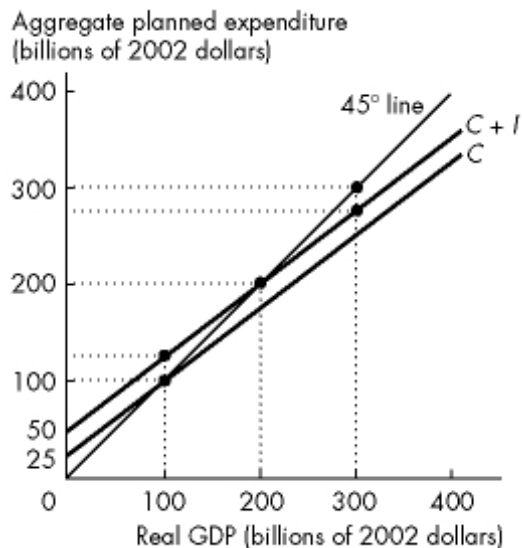


Figure 27.3.1

The economy shown in the graph does not engage in international trade and has no government. Planned aggregate expenditure equals the sum of consumption expenditure (C) and investment (I).

40) Refer to Figure 27.3.1. The multiplier for this economy is

A) 3.

B) 2.5.

C) 1.

D) 2.

E) 4.

40) _____