

**NAME:** \_\_\_\_\_ **STUDENT #** \_\_\_\_\_

**LAKEHEAD UNIVERSITY  
FINAL EXAMINATION**

**Economics 1100 YA  
Principles of Economics**

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6:00 p.m.  
CJ Saunders Fieldhouse**

**DURATION: 3 hours**

**Calculators allowed.**

**THIS EXAMINATION PAPER MAY NOT BE TAKEN FROM THE EXAMINATION ROOM.**

**YOU MUST count the number of pages in this examination paper BEFORE beginning to write. Report any discrepancy immediately to a proctor.**

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

- 1) If a country's labour force is 20 million people, and 1 million people are unemployed, the country's unemployment rate is 1) \_\_\_\_\_  
A) 2.5 percent.  
B) 5 percent.  
C) 4 percent.  
D) 0.5 percent.  
E) 3.5 percent.
- 2) If 0.75 U.S. dollars can be exchanged for one Canadian dollar, we say that the Canadian-U.S. exchange rate is 2) \_\_\_\_\_  
A) 1.33.                      B) 1.25.                      C) 75.                      D) 0.75.                      E) 1.0.
- 3) Suppose Honest Rob's Used Cars buys a used car for \$2 000 and resells it for \$3 000. The result of Honest Rob's transactions is to 3) \_\_\_\_\_  
A) decrease the value of national income by \$3 000.  
B) decrease the value of national income by \$1 000.  
C) leave the value of national income unchanged.  
D) increase the value of national income by \$3 000.  
E) increase the value of national income by \$1 000.
- 4) Potential or full-employment output is 4) \_\_\_\_\_  
A) the GDP that would be produced if the economy's resources were fully employed at a normal intensity of use.  
B) the maximum GDP that an economy actually achieves throughout its entire history.  
C) achieved during periods when all of the labour force is employed.  
D) a goal that can never be achieved by the economy.  
E) the GDP that could be produced if the economy's resources were fully employed at their maximum intensity of use.

The table below provides macroeconomic data for a hypothetical economy. Dollar amounts are all in constant-dollar terms.

<u>Year</u>	<u>Actual Output</u> (billions of \$)	<u>Potential Output</u> (billions of \$)	<u>Unemployment Rate</u> (% of labour force)
2002	402	404	7.1
2003	408	411	7.2
2004	415	415	6.3
2005	420	418	5.9
2006	422	420	6.0
2007	420	423	7.0
2008	425	425	6.3

**TABLE 19-1**

5) Refer to Table 19-1. In which years was this economy experiencing a recessionary gap?

5) \_\_\_\_\_

- A) 2002, 2003, 2004
- B) 2002, 2003, 2007
- C) 2005, 2006
- D) 2004, 2008
- E) 2006, 2007, 2008

6) If the cyclical unemployment rate is negative, then the

6) \_\_\_\_\_

- A) real-wage unemployment rate is negative.
- B) economy is operating beyond full employment.
- C) frictional unemployment rate is greater than the structural unemployment rate.
- D) economy is operating at less than full employment.
- E) frictional unemployment rate is negative.

7) The unemployment rate will overstate the true amount of unemployment if:

7) \_\_\_\_\_

- A) The actual unemployment rate is greater than the natural rate of unemployment.
- B) The unemployment rate is rising.
- C) The official unemployment figure includes discouraged workers who have stopped actively looking for work.
- D) Crime, divorce, and social unrest are all positively correlated with unemployment.
- E) The labour force has grown more rapidly than output.

8) If the Canadian dollar exchange rate increases, the

8) \_\_\_\_\_

- A) Canadian dollar appreciates relative to foreign currencies.
- B) Canadian dollar depreciates relative to foreign currencies.
- C) internal value of the dollar rises.
- D) external value remains unaffected.
- E) internal value of the dollar falls.

- 9) Consider the situations of a lender of money and a borrower of money. Which of the following situations is *least* burdensome for the borrower? 9) \_\_\_\_\_
- A) nominal interest rate of 29% and an inflation rate of 21%
  - B) nominal interest rate of 4% and an inflation rate of 4%
  - C) nominal interest rate of 10% and an inflation rate of 1%
  - D) nominal interest rate of 8% and an inflation rate of 2%
  - E) nominal interest rate of 15% and an inflation rate of 8%

- 10) How does net domestic income differ from gross domestic product? Net domestic income is GDP minus 10) \_\_\_\_\_
- A) replacement investment.
  - B) that part of it not actually paid to households, plus transfer payments to households.
  - C) that part of it not actually paid to households, minus personal income taxes paid by households.
  - D) that part of it not actually paid to households, plus transfer payments to households, minus personal taxes paid by households.
  - E) the sum of corporate, personal and sales taxes paid to the government.

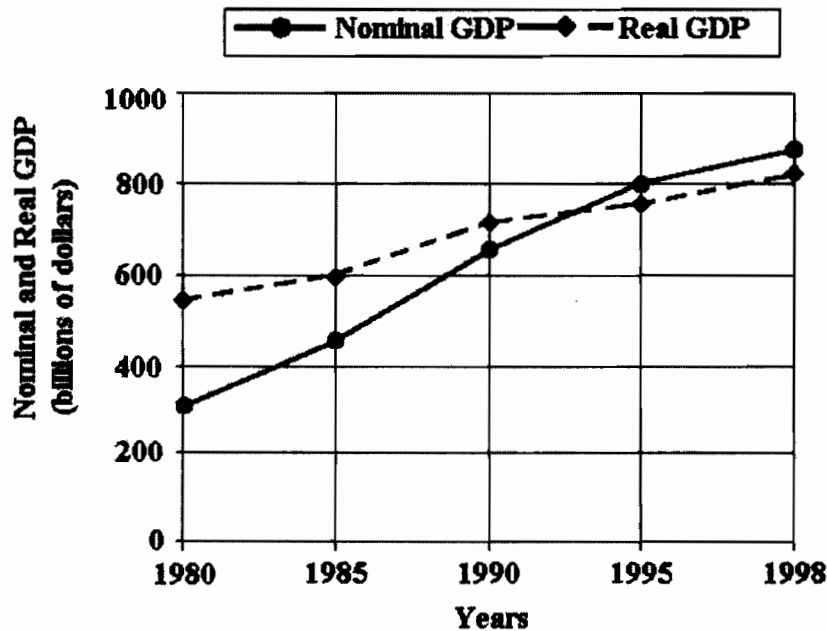


FIGURE 20-1

- 11) Refer to Figure 20-1. Nominal GDP increased by approximately \_\_\_\_\_ percent between 1985 and 1990. 11) \_\_\_\_\_
- A) 20
  - B) 45
  - C) 65
  - D) 85
  - E) 100

- 12) In national-income accounting, changes in inventories are 12) \_\_\_\_\_  
A) not included in the national accounts.  
B) included under actual consumption expenditures.  
C) classified as part of current actual investment.  
D) described as actual fixed investment.  
E) referred to as intermediate goods.
- 13) In national-income accounting, "depreciation" refers to 13) \_\_\_\_\_  
A) a term used in accounting, not economics.  
B) the amount by which the capital stock is depleted during the accounting period.  
C) the difference between gross investment and net investment.  
D) the increase in the economy's stock of capital per year.  
E) both B and C are correct.
- 14) Suppose that in 2008, ABC Corporation produced \$6 million worth of natural gas pipes but was 14) \_\_\_\_\_  
able to sell only \$5 million worth. Is the remaining \$1 million of unsold pipes part of GDP for 2008?  
A) No, since changes in inventories are part of actual investment.  
B) Yes, since they are part of the economy's output in 2008.  
C) No, since they are part of the economy's output only when sold.  
D) Yes, since changes in inventories are part of consumption expenditures.  
E) none of the above
- 15) Real GDP is equivalent to 15) \_\_\_\_\_  
A) the money value of all goods and services produced in an economy per year plus imports.  
B) the market value of all goods and services produced in an economy per year.  
C) the nominal value of GNP multiplied by the GDP deflator.  
D) personal disposable income plus depreciation.  
E) the value of all goods and services produced in an economy per year adjusted for price changes.
- 16) Suppose a Canadian firm imports \$5 000 worth of frisbees from China and sells them for \$10 000. The effect on GDP would be 16) \_\_\_\_\_  
A) to increase the value of GDP by \$10 000.  
B) to decrease the value of GDP by \$15 000.  
C) to increase the value of GDP by \$5 000.  
D) to increase the value of GDP by \$15 000.  
E) no effect on GDP since the frisbees were produced outside of Canada.

- 17) Gross domestic product is the sum of factor incomes \_\_\_\_\_ indirect business taxes, \_\_\_\_\_ subsidies, \_\_\_\_\_ depreciation. 17) \_\_\_\_\_
- A) plus; plus; plus
  - B) minus; plus; plus
  - C) plus; minus; minus
  - D) plus; minus; plus
  - E) plus; plus; minus
- 18) "The marginal propensity to consume" refers to the additional 18) \_\_\_\_\_
- A) desired saving that occurs out of an additional dollar of disposable income.
  - B) desired consumption that occurs over time.
  - C) desired consumption that occurs out of an additional dollar of disposable income.
  - D) desired consumption that occurs out of an additional dollar of investment.
  - E) desired consumption caused by a change in tastes.
- 19) Suppose aggregate output is demand-determined. The simple multiplier will increase as a result of 19) \_\_\_\_\_
- A) a decrease in autonomous consumption.
  - B) an increase in investment.
  - C) an increase in autonomous consumption.
  - D) a decrease in the marginal propensity to consume.
  - E) an increase in the marginal propensity to consume.
- 20) If national income is demand-determined, the condition for national income to be in equilibrium can be stated as: 20) \_\_\_\_\_
- A) actual saving equals actual investment.
  - B) AE must be greater than Y.
  - C) unemployment must equal the natural unemployment rate.
  - D) desired aggregate expenditure equals the actual level of national income.
  - E) desired saving equals actual investment.

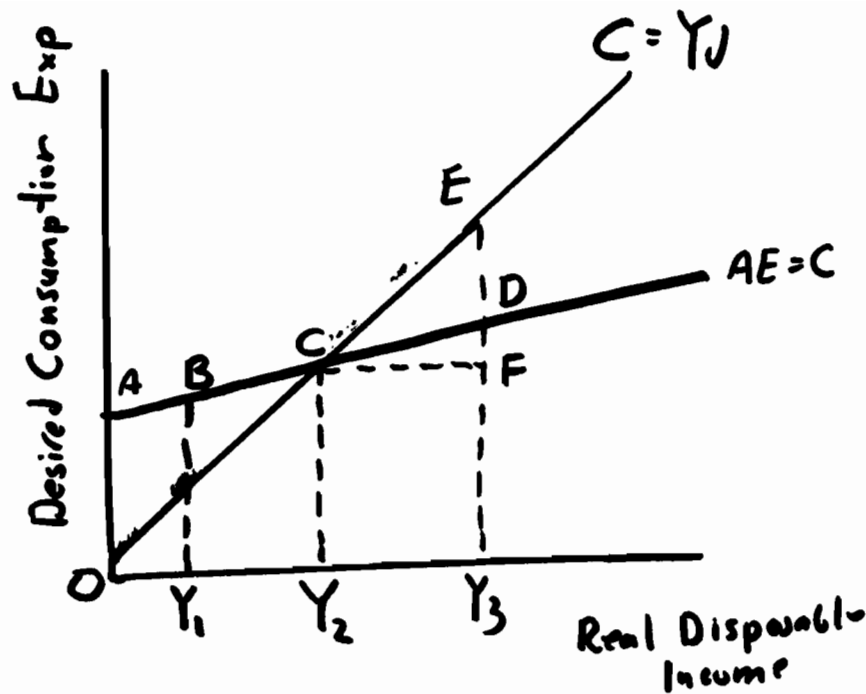


FIGURE 21-1

- 21) Refer to Figure 21-1. If disposable income is  $Y_3$ , the level of desired saving is \_\_\_\_\_  
 A) FD.                      B)  $Y_3D$ .                      C)  $Y_3F$ .                      D) DE.                      E)  $Y_2Y_3$ .
- 22) The marginal propensity to save refers to the \_\_\_\_\_  
 A) total saving divided by a change in income.  
 B) change in saving divided by total income.  
 C) additional saving that occurs out of an additional dollar of investment.  
 D) additional saving that occurs over time.  
 E) additional saving that occurs out of an additional dollar of income.
- 23) The simple multiplier applies to short-run situations in which the price level is constant. The simple multiplier can be defined as \_\_\_\_\_  
 A) a change in aggregate expenditures multiplied by the equilibrium level of national income.  
 B) national income divided by aggregate expenditure.  
 C) the change in national income resulting from a change in expenditure, multiplied by the number of years since the initial change.  
 D) the change in national income resulting from a change in saving.  
 E) the change in equilibrium national income divided by the initial change in autonomous expenditure that brought it about.

- 24) With respect to consumption, investment, government purchases and net exports, the national-income and product accounts measure 24) \_\_\_\_\_
- A) the flow of saving at any income.
  - B) both actual and desired expenditures, since actual expenditure must equal desired expenditure in each category.
  - C) desired expenditures in each of the categories.
  - D) actual expenditures in each of the categories.
  - E) neither actual nor desired expenditures.

Consider the following information concerning an economy with demand-determined output. There is no government or foreign trade.

1.  $Y = C + I$
2.  $C = 100 + 0.5Y$
3.  $I = 200$

**TABLE 21-3**

- 25) Refer to Table 21-3. The simple multiplier in this economy is 25) \_\_\_\_\_
- A) 2.0.
  - B) 2.5.
  - C) 3.0.
  - D) 4.0.
  - E) 5.0.
- 26) Suppose  $G = 300$  and the government's net tax revenue is equal to  $0.12Y$ . The government budget is balanced when  $Y$  equals \_\_\_\_\_. 26) \_\_\_\_\_
- A) 350
  - B) 1 000
  - C) 2 000
  - D) 2 500
  - E) 3 600
- 27) Suppose that the marginal propensity to consume out of disposable income is 0.6 and the marginal propensity to import is 0.14. If the net tax rate is 0.1, then what is the marginal propensity to spend in this economy? 27) \_\_\_\_\_
- A) 0.30
  - B) 0.40
  - C) 0.46
  - D) 0.50
  - E) 0.60
- 28) In an open economy with government and demand-determined output, an increase in the equilibrium level of national income could be caused by 28) \_\_\_\_\_
- A) an increase in the desired level of imports at all levels of income.
  - B) a decrease in government purchases.
  - C) a decrease in the desired level of saving at all levels of income.
  - D) an increase in taxes at all levels of income.
  - E) a decrease in desired consumption at all levels of income.
- 29) The net export (NX) function crosses the horizontal axis at a level of national income where the 29) \_\_\_\_\_
- A) X curve reaches its maximum.
  - B) X and IM curves intersect.
  - C) X curve reaches the horizontal axis.
  - D) X and IM curves are at their farthest distance apart.
  - E) IM curve reaches the horizontal axis.



- 30) Consider a simple macro model with a constant price level and demand-determined output. The equations of the model are:  $C = 60 + 0.43Y$ ,  $I = 150$ ,  $G = 260$ ,  $T = 0$ ,  $X = 90$ ,  $IM = 0.06Y$ . The vertical intercept of the AE function is \_\_\_\_\_
- A) 60.0.                      B) 210.0.                      C) 300.0.                      D) 414.4.                      E) 560.0.
- 31) Consider a simple macro model with a constant price level and demand-determined output. The equations of the model are:  $C = 60 + 0.43Y$ ,  $I = 150$ ,  $G = 260$ ,  $T = 0$ ,  $X = 90$ ,  $IM = 0.06Y$ . A national income of 1200 results in desired aggregate expenditure of \_\_\_\_\_. \_\_\_\_\_
- A) 560                      B) 926                      C) 1 004                      D) 1 016                      E) 1 088
- 32) Consider a macro model with demand-determined output. The equations are:  $C = 150 + 0.8Y_d$ ,  $Y_d = Y - T$ ,  $I = 400$ ,  $G = 700$ ,  $T = .2Y$ ,  $X = 130$ , and  $IM = 0.14Y$ . Autonomous expenditures in this model are \_\_\_\_\_. \_\_\_\_\_
- A) 1 120                      B) 1 350                      C) 1 380                      D) 2 700                      E) 5 400
- 33) If firms' unit costs remained constant as they increased their output level, this would lead to a \_\_\_\_\_
- A) horizontal AS curve.  
B) horizontal AD curve.  
C) horizontal AE curve.  
D) vertical AD curve.  
E) vertical AS curve.
- 34) In a macro model with a constant price level, an increase in autonomous desired consumption will cause the AE curve to shift \_\_\_\_\_
- A) downward and the AD curve to shift to the right.  
B) upward and a movement to the right along the AD curve.  
C) upward and the AD curve to shift to the left.  
D) upward and the AD curve to shift to the right.  
E) downward and the AD curve to shift to the left.
- 35) Consider the following news headline: "World commodity prices rise sharply." Choose the statement below that best describes the likely macroeconomic effects in Canada. (Remember that Canada is both a producer and a consumer of commodities.) \_\_\_\_\_
- A) the AD curve shifts to the left and the AS curve shifts to the right; the price level falls and the effect on real GDP is indeterminate  
B) the AD and AS curves both shift to the left; the effect on the price level is indeterminate and real GDP decreases  
C) there is no change in either the AD or the AS curves  
D) the AD curve shifts to the right and the AS curve shifts to the left; the price level rises and the effect on real GDP is indeterminate  
E) the AD and AS curves both shift to the right; the effect on the price level is indeterminate and real GDP increases

36) Suppose that the economy is hit by a shock and we observe that the price level has decreased whereas real GDP has increased. We can conclude that this shock was

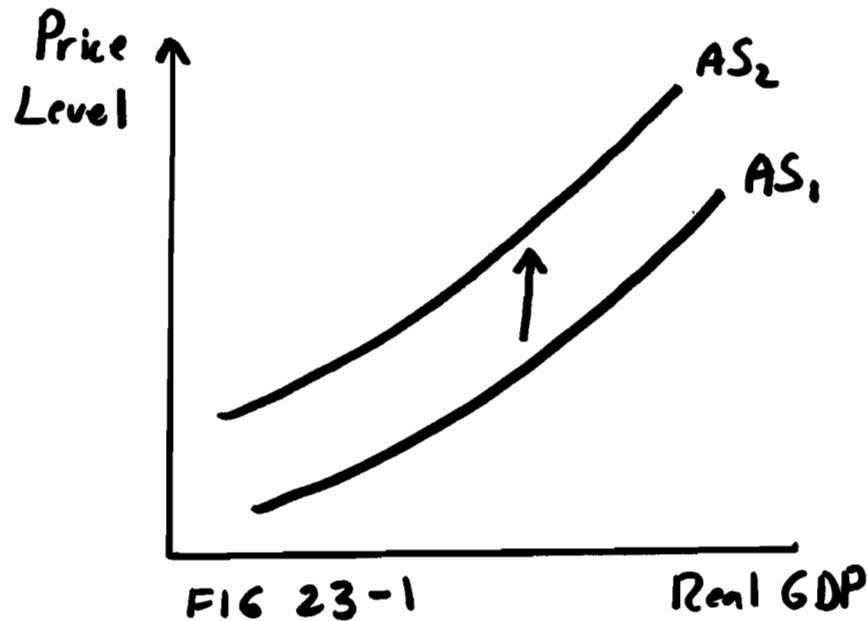
36) \_\_\_\_\_

- A) a negative AD shock.
- B) a negative technology shock.
- C) a positive AS shock.
- D) a positive AD shock.
- E) a negative AS shock.

37) The economy's AS curve is often assumed to be relatively flat at low levels of real GDP. The underlying reasoning is that

37) \_\_\_\_\_

- A) consumer demand for most goods tends to be price-inelastic when output is low.
- B) consumer demand for most goods tends to be price-elastic when output is low.
- C) profits are normally high in this section of the AS curve, so firms are willing to expand output.
- D) the price level is constant.
- E) at low levels of GDP, firms are faced with unused capacity and thus can increase output without significantly increasing their costs.



38) Refer to Figure 23-1. The shift of the AS curve shown in the diagram is referred to as a(n)

38) \_\_\_\_\_

- A) increase in aggregate supply.
- B) decrease in aggregate supply.
- C) negative aggregate supply shock.
- D) positive aggregate supply shock.
- E) both B and C are correct.

- 39) If an economy is experiencing neither a recessionary gap nor an inflationary gap, the real output of the economy will be reflected by \_\_\_\_\_
- A) the intersection of the AD and AS curves at potential output.
  - B) the aggregate demand curve shifting to the left.
  - C) a point to the right of the aggregate supply curve at potential GDP.
  - D) the aggregate expenditure curve shifting upward.
  - E) the aggregate supply curve shifting to the left.
- 40) An economy may not quickly and automatically eliminate a recessionary output gap because wages \_\_\_\_\_
- A) are flexible but prices have a tendency to be sticky downward.
  - B) have a tendency to be sticky downward.
  - C) never change in response to changes in the demand for labour.
  - D) have a tendency to fall too quickly.
  - E) have a tendency to rise too quickly.

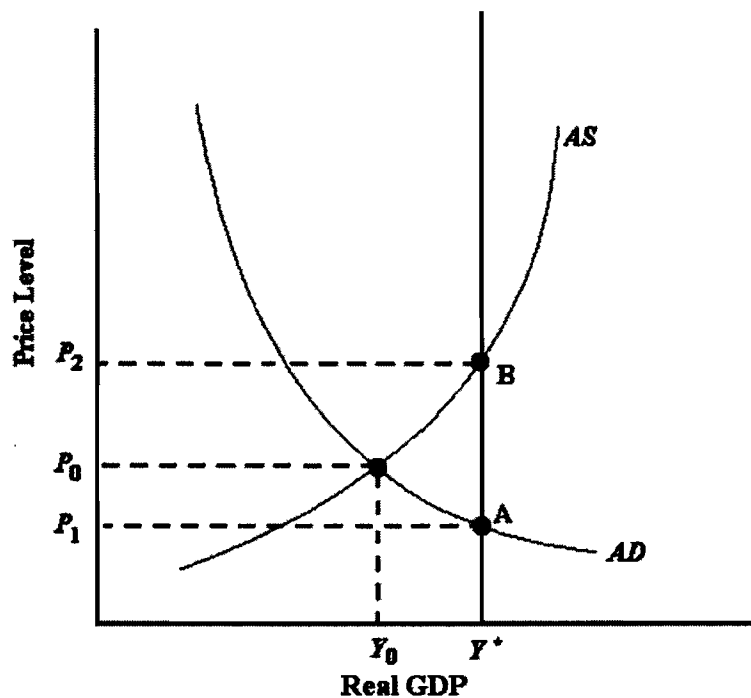


FIGURE 24-1

- 41) Refer to Figure 24-1. Suppose the economy is currently in a short-run equilibrium with output of  $Y_0$ . The appropriate fiscal policy response, to attain potential output ( $Y^*$ ), is \_\_\_\_\_
- A) a reduction in government purchases of goods and services.
  - B) an increase in personal income taxes.
  - C) an increase in corporate income taxes.
  - D) an increase in interest rates to encourage increased saving.
  - E) an increase in government purchases or reduction in income taxes or a combination of both.

42) A recessionary output gap is characterized by

- A) constant prices.
- B) rising prices.
- C) real output that varies one-for-one with aggregate demand.
- D) real GDP falling below potential output.
- E) real GDP exceeding potential output.

42) \_\_\_\_\_

43) Consider the AD/AS model. Since output in the long run is determined by  $Y^*$ , the only role of the AD curve is to determine the price level. This is true because the

- A)  $Y^*$  is independent of the price level.
- B) aggregate demand curve is vertical.
- C) AS curve is upward sloping.
- D) aggregate demand curve is horizontal.
- E)  $Y^*$  depends on the price level.

43) \_\_\_\_\_

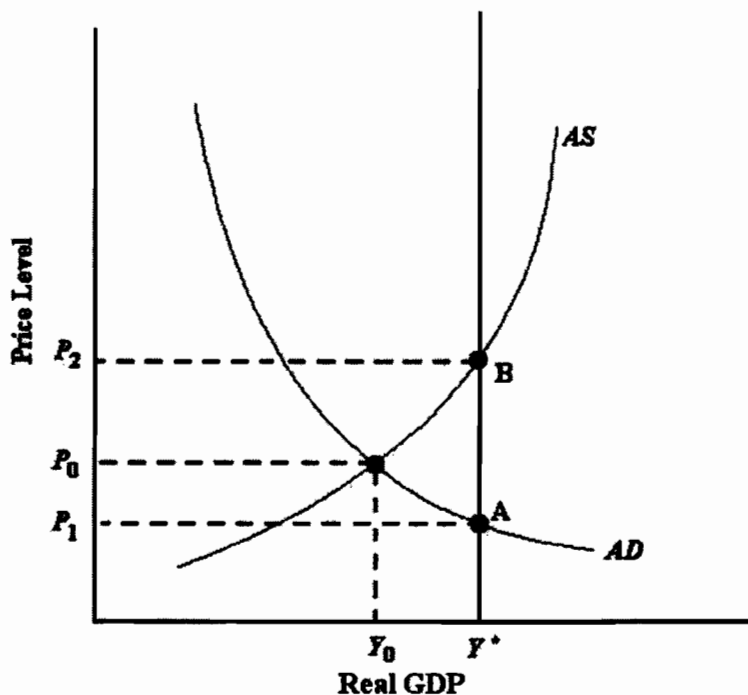


FIGURE 24-1

44) Refer to Figure 24-1. If the economy is currently producing output of  $Y_0$  and the government initiates an expansionary fiscal policy adequate to close the output gap, the result will likely be

- A) no change in either price level or output, since expansionary fiscal policy is ineffective.
- B) that the AS curve will shift to the right until point A is reached.
- C) that the AD curve will shift to the right until point B is reached.
- D) the vertical line at  $Y^*$  will shift to the left, intersecting the AS and AD curves at  $Y_0$ .
- E) that the AS curve and the AD curve will shift right simultaneously until the new equilibrium occurs at potential national income.

44) \_\_\_\_\_

- 45) The study of the long run in macroeconomics focuses 45) \_\_\_\_\_  
A) equally on potential GDP and actual GDP.  
B) primarily on changes to potential GDP.  
C) primarily on changes to the output gap, with a constant level of potential output.  
D) on changes to actual GDP but not on changes in potential GDP.  
E) none of the above.
- 46) Consider a small economy where factor supply is 4000 units, the factor utilization rate is 0.8 and 46) \_\_\_\_\_  
a simple measure of productivity (GDP per factor employed) is \$50. This economy's GDP is  
A) \$320 000 B) \$40 000 C) \$200 000 D) \$160 000 E) \$500 000
- 47) Potential GDP is defined as the level of aggregate output at which 47) \_\_\_\_\_  
A) the unemployment rate is zero.  
B) there is only cyclical and frictional unemployment, and capital equipment is being used at 100 percent capacity.  
C) there is only cyclical and structural unemployment.  
D) all factors of production are employed at 100 percent capacity.  
E) all factors of production are employed at their "normal" utilization rates.
- 48) GDP can be represented by the equation:  $GDP = L \times [E/L] \times [GDP/E]$ . In this equation, the term 48) \_\_\_\_\_  
[E/L] represents  
A) the ratio of the population unemployed.  
B) one minus the unemployment rate.  
C) the level of employment at a given period of time.  
D) the productivity of labour.  
E) none of the above
- 49) An economy's stock of capital increases directly because of 49) \_\_\_\_\_  
A) low levels of saving.  
B) an increase in interest rates.  
C) a positive flow of investment.  
D) a decrease in business cycles.  
E) high levels of immigration.
- 50) An aggregate production function exhibits constant returns to scale when a one percent increase 50) \_\_\_\_\_  
in labour input  
A) induces a one percent increase in capital input.  
B) along with a one percent increase in capital produces one percent more output.  
C) along with a one percent decrease in capital produces the same amount of output.  
D) along with a one percent increase in capital produces the same amount of output.  
E) produces a one percent increase in output.

- 51) In Neoclassical growth theory, average material living standards in an economy could fall when 51) \_\_\_\_\_  
 A) additional units of capital are added to the other factors.  
 B) technology improves.  
 C) additional units of labour are added to the other factors.  
 D) there is a decline in the population.  
 E) there is equal percentage growth in capital and labour inputs.
- 52) If a country transfers resources from the production of consumption goods to the production of 52) \_\_\_\_\_  
 capital goods, the result will be to  
 A) raise current consumption.  
 B) raise future consumption.  
 C) raise current living standards.  
 D) decrease the long-run growth rate.  
 E) lower future living standards.
- 53) If real income grows at approximately 4 percent per year, the number of years it will take for real 53) \_\_\_\_\_  
 income to double is approximately  
 A) 5.                      B) 12.                      C) 18.                      D) 36.                      E) 72.
- 54) According to the "new" growth theory, increasing marginal returns to capital investment is 54) \_\_\_\_\_  
 A) impossible, and is thus a weak source of growth.  
 B) possible only if the capital is government-owned infrastructure.  
 C) possible after initial fixed costs of innovation have been borne.  
 D) impossible because diminishing returns are unavoidable.  
 E) possible, but only in the early stages of innovation before imitators rush in to drive prices down.

**Bank North's Balance Sheet**

<u>Assets</u>		<u>Liabilities</u>	
Reserves	\$300	Deposits	\$2000
Loans	<u>\$2200</u>	Capital	<u>\$500</u>
	\$2500		\$2500

**TABLE 27-1**

- 55) Refer to Table 27-1. Assume that Bank North is operating with no excess reserves. What is their 55) \_\_\_\_\_  
 actual reserve ratio?  
 A) 15%                      B) 13.67%                      C) 25%                      D) 20%                      E) 12%
- 56) The M2 and M2+ definitions of the money supply include assets 56) \_\_\_\_\_  
 A) such as a government Treasury bill.  
 B) such as term deposits at the chartered banks.  
 C) such as a credit card.  
 D) that are easily convertible into a medium of exchange.  
 E) such as term deposits at non-bank financial institutions.

- 57) The major advantage of using money rather than barter is that
- A) money is the only convenient way to store one's wealth.
  - B) money is universally accepted.
  - C) money stays where you put it, whereas a cow often has to be fenced in.
  - D) in the barter system there is no way to express values of commodities.
  - E) the use of money significantly reduces transactions costs.

57) \_\_\_\_\_

*Consider the following situation in the Canadian banking system:*

- a) An investment dealer withdraws \$10 million from its account at Bank XYZ to purchase government securities from the Bank of Canada.
- b) As a result, \$10 million has been withdrawn from the Canadian banking system.
- c) The target reserve ratio for all banks is 10 percent.
- d) All commercial banks operate with no excess reserves.
- e) There is no cash drain.

**TABLE 27-3**

- 58) Refer to Table 27-3. Assume that Bank XYZ has decreased its loans and re-established its target reserve ratio. The second-generation banks in this scenario will
- A) decrease their loans by \$9.0 million.
  - B) not have to change their loan positions.
  - C) decrease their loans by \$8.1 million.
  - D) increase their loans by \$9.0 million.
  - E) increase their loans by \$8.1 million.

58) \_\_\_\_\_

- 59) What is the present value of a bond that pays \$121.00 one year from today if the interest rate is 10 percent per year?
- A) \$100.00      B) \$110.00      C) \$121.00      D) \$133.10      E) \$221.00

59) \_\_\_\_\_

- 60) The view of the Classical economists regarding the "neutrality of money" was that
- A) money is neutral in its effect on absolute prices in the economy.
  - B) the allocation of resources is independent of the distribution of income.
  - C) the real part of the economy cannot affect the level of money prices.
  - D) the quantity of money has no effect on any real variables in the economy.
  - E) the distribution of income is independent of the allocation of resources.

60) \_\_\_\_\_

- 61) If a person is holding money for the purchase of goods and services, this demand for money is known as
- A) speculative demand.
  - B) precautionary demand.
  - C) transactions demand.
  - D) nominal balance demand.
  - E) real balance demand.

61) \_\_\_\_\_

- 62) Consider monetary equilibrium. A rise in the price level, with no change in the supply of money, will 62) \_\_\_\_\_
- A) increase the demand for money and decrease aggregate expenditure.
  - B) decrease the demand for money and increase aggregate demand.
  - C) decrease the demand for money and decrease aggregate demand.
  - D) decrease aggregate demand but not affect the demand for money.
  - E) increase the demand for money and increase aggregate expenditure.
- 63) If the Bank of Canada were required to gain approval for all changes in monetary policy from Parliament before implementing them, this would result in 63) \_\_\_\_\_
- A) permanently higher exchange rates for the Canadian dollar.
  - B) temporary reductions in the interest rate.
  - C) longer time lags in monetary policy.
  - D) permanently higher unemployment.
  - E) higher inflation in the long run.
- 64) Suppose Canadian real GDP is equal to potential GDP. A significant and sustained appreciation of the Canadian dollar on the foreign-exchange market then requires the Bank of Canada to 64) \_\_\_\_\_
- A) increase the target band for the overnight lending rate.
  - B) engage in contractionary monetary policy to counter the rise in the dollar.
  - C) increase the target band for the inflation rate.
  - D) identify the cause of the change in the exchange rate before taking any action to adjust policy.
  - E) engage in expansionary monetary policy to counter the rise in the dollar.
- 65) As of 2006, the Bank of Canada's policy objective was to maintain inflation at or near the target of 65) \_\_\_\_\_
- A) 1 percent.
  - B) 4 percent.
  - C) 0 percent.
  - D) 3 percent.
  - E) 2 percent.
- 66) Most economists believe that the single largest cause of rising material living standards over long periods of time is 66) \_\_\_\_\_
- A) rising real wages.
  - B) productivity growth.
  - C) rising employment.
  - D) growth in the capital stock.
  - E) real GDP growth.
- 67) Suppose the city of Calgary has a population of 1 million, a labour force of 575 000, and employment equal to 545 000 . We can conclude that for legal and various other reasons \_\_\_\_\_ people are excluded from the labour force. 67) \_\_\_\_\_
- A) 395 000      B) 420 000      C) 425 000      D) 445 000      E) 450 000



The table below provides macroeconomic data for a hypothetical economy. Dollar amounts are all in constant-dollar terms.

<u>Year</u>	<u>Actual Output</u> (billions of \$)	<u>Potential Output</u> (billions of \$)	<u>Unemployment Rate</u> (% of labour force)
2002	402	404	7.1
2003	408	411	7.2
2004	415	415	6.3
2005	420	418	5.9
2006	422	420	6.0
2007	420	423	7.0
2008	425	425	6.3

**TABLE 19-1**

- 68) Refer to Table 19-1. What is the unemployment rate when this economy is at full employment? 68) \_\_\_\_\_  
 A) 6.0%                      B) 6.3%                      C) 5.9%                      D) 7.1%                      E) 7.0%
- 69) When adding up the value of all goods produced in the economy, double counting can be avoided if only the \_\_\_\_\_ is included. 69) \_\_\_\_\_  
 A) revenue of all goods and services.  
 B) value of final good and services.  
 C) revenue of intermediate goods and services.  
 D) value of intermediate goods and services.  
 E) cost of intermediate goods and services.
- 70) Which of the following statements regarding housing expenditures in the national accounts is correct? 70) \_\_\_\_\_  
 A) Rental payments for houses are counted as part of consumption.  
 B) The provision of new public housing by the government is classified as private investment.  
 C) Owner-occupied housing is counted as investment by imputing the value of the housing services enjoyed by the owner.  
 D) New residential construction is classified as consumption.  
 E) The cost of a home purchased from its previous occupant is part of investment.
- 71) Which one of the following is an example of "government purchases"? 71) \_\_\_\_\_  
 A) \$600 paid to an unemployed worker for employment insurance  
 B) \$1000 paid to a poor person for income support  
 C) \$2000 paid to a retiree  
 D) \$100 000 paid as interest on the national debt  
 E) \$4000 spent for services provided by a private consultant

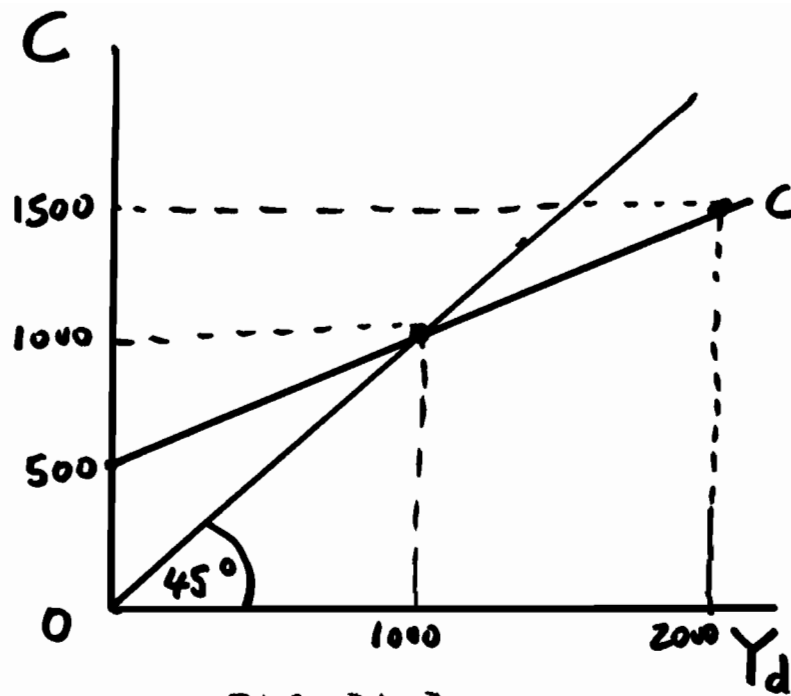


FIG 21-2

- 72) Refer to Figure 21-2. The amount of desired consumption expenditure that is unrelated to the level of disposable income is
- A) \$2000.      B) \$500.      C) \$0.      D) \$1000.      E) \$1500.

72) \_\_\_\_\_

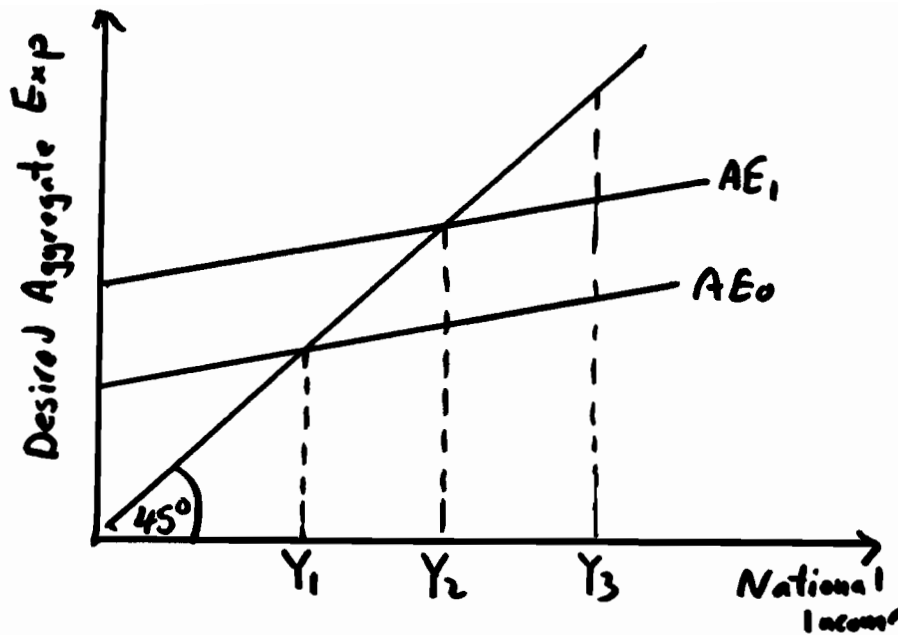


FIGURE 21-3

- 73) Refer to Figure 21-3. Assuming  $AE_0$  to be the prevailing aggregate expenditure function, at a level of national income equal to  $Y_3$  we can state that 73) \_\_\_\_\_
- A) desired aggregate expenditure is less than output.
  - B) consumption is less than desired aggregate expenditure.
  - C) consumption is greater than desired aggregate expenditure.
  - D) desired aggregate expenditure is greater than output.
  - E) desired saving is less than zero.
- 74) Suppose the price level is constant, output is demand-determined, and the economy is closed with no government. If the marginal propensity to spend is 0.7, the simple multiplier is 74) \_\_\_\_\_
- A) 0.33.
  - B) 0.70.
  - C) 1.00.
  - D) 1.42.
  - E) 3.33.
- 75) Consider a simple macro model with a constant price level and demand-determined output. The equations of the model are:  $C = 120 + 0.86Y$ ,  $I = 300$ ,  $G = 520$ ,  $T = 0$ ,  $X = 180$ ,  $IM = 0.12Y$ . Equilibrium national income is \_\_\_\_\_. 75) \_\_\_\_\_
- A) 2 037.48
  - B) 3 615.24
  - C) 4 000.00
  - D) 4 307.70
  - E) 8 000.00
- 76) When economists use the term "public saving" they are referring to 76) \_\_\_\_\_
- A) disposable income minus consumption.
  - B) national income minus transfer payments.
  - C) net tax revenues minus government purchases.
  - D) net tax revenues minus transfer payments.
  - E) national income minus consumption.

- 77) The AD curve relates the price level to
- A) desired aggregate expenditure.
  - B) desired consumption.
  - C) equilibrium nominal GDP if output is demand determined.
  - D) equilibrium savings and wealth.
  - E) equilibrium real GDP if output is demand determined.

77) \_\_\_\_\_

- 78) Consider the basic AD/AS model. A rise in an input price like unit labour costs would be expected to create a new macroeconomic equilibrium which in comparison to the original equilibrium has a price level that is
- A) higher and a real GDP that is the same.
  - B) lower and a real GDP that is lower.
  - C) higher and a real GDP that is higher.
  - D) higher and a real GDP that is lower.
  - E) lower and a real GDP that is higher.

78) \_\_\_\_\_

The diagram below shows an AD/AS model for a hypothetical economy. The economy begins in long-run equilibrium at point A.

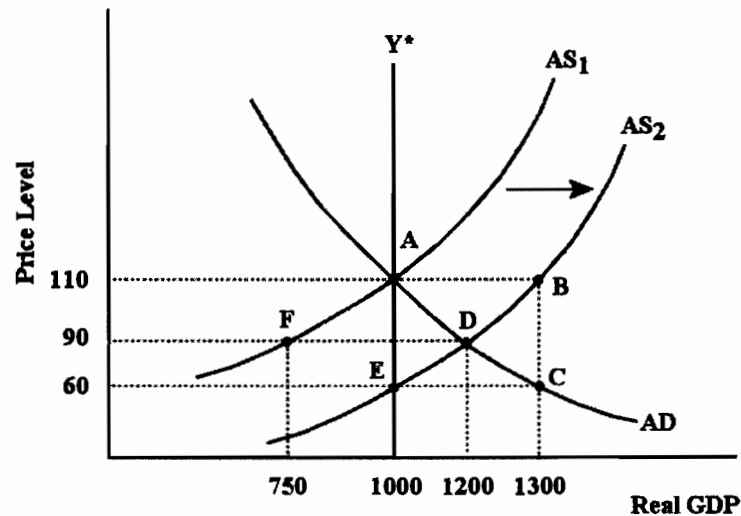


FIGURE 24-4

- 79) Refer to Figure 24-4. The initial effect of a positive AS shock results in \_\_\_\_\_.
- A) an inflationary output gap of 300
  - B) a recessionary output gap of 450
  - C) a recessionary output gap of 250
  - D) an inflationary output gap of 200
  - E) an inflationary output gap of 550

79) \_\_\_\_\_

- 80) Which of the following will occur as part of the automatic adjustment process in an economy with an inflationary gap? 80) \_\_\_\_\_
- A) increasing investment
  - B) rising wages
  - C) declining government purchases
  - D) increasing tax rates
  - E) falling prices
- 81) On the basis of both theory and empirical evidence, most economists believe that changes in monetary policy have 81) \_\_\_\_\_
- A) no effect on real GDP or factor utilization in the short run.
  - B) no effect on real GDP or inflation in the long run.
  - C) powerful effects on real GDP and factor prices both in the short run and in the long run.
  - D) no long-run effect on real GDP but a substantial long-run effect on inflation.
  - E) important long-run effects by changing real interest rates.
- 82) Consider the basic AD/AS model. In the short run, a shift of the aggregate supply curve would lead to a change in real GDP by mostly changing 82) \_\_\_\_\_
- A) the productivity of capital.
  - B) the amount of labour employed.
  - C) the prices of factors of production.
  - D) the amount of land (natural resources) available to the economy.
  - E) all of the above
- 83) When a new personal computer is purchased to replace an old one, and the new PC is much better and faster than the old one, there has been 83) \_\_\_\_\_
- A) a disembodied technical change.
  - B) a fall in the output per unit of capital.
  - C) capital "deepening".
  - D) an embodied technical change.
  - E) a rise in the capital-output ratio.

The diagram below show the market for loanable funds assuming that national income is constant at  $Y^*$ .

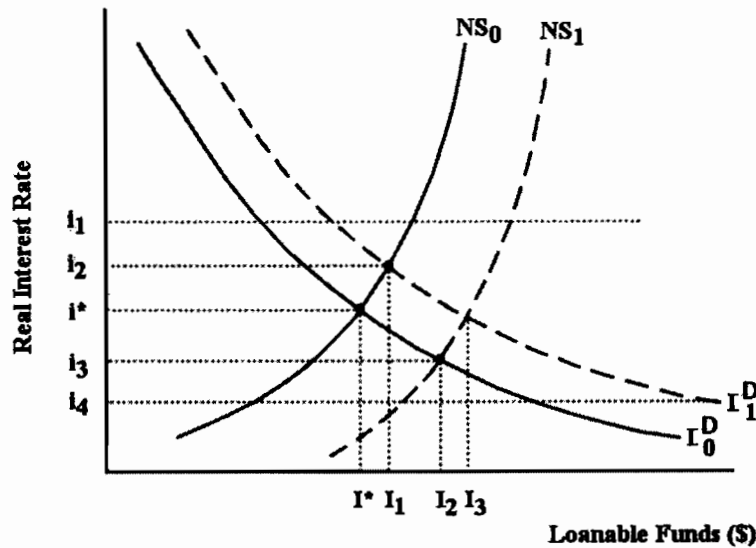


FIGURE 26-2

- 84) Refer to Figure 26-2. Suppose national saving is reflected by  $NS_0$  and investment demand is reflected by  $I_0^D$ . If the real interest rate is  $i_1$ , there is \_\_\_\_\_ which will drive the interest rate down until it reaches  $i^*$ . 84) \_\_\_\_\_
- A) an excess supply of loanable funds
  - B) an excess demand for loanable funds
  - C) an excess demand for financial capital
  - D) an excess demand for investment
  - E) an excess supply of public saving
- 85) Which of the following entries would appear on the liabilities side of the Bank of Canada's balance sheet? 85) \_\_\_\_\_
- A) Government of Canada securities
  - B) savings deposits
  - C) shareholders' equity
  - D) deposits of commercial banks
  - E) advances to commercial banks
- 86) Consider monetary equilibrium. A decrease in the price level, with no change in the supply of money, will 86) \_\_\_\_\_
- A) increase the demand for money and increase aggregate expenditure.
  - B) increase the demand for money and decrease aggregate expenditure.
  - C) decrease the demand for money and increase aggregate demand.
  - D) decrease the demand for money and leave aggregate demand unchanged.
  - E) decrease the demand for money and decrease aggregate demand.

- 87) An example of how inflation targeting by the Bank of Canada helps to stabilize the economy is: 87) \_\_\_\_\_
- A) when the actual inflation rate falls below the targeted level of inflation, then commercial banks automatically increase deposit creation.
  - B) when a recessionary gap reduces the rate of inflation (below the target level) the Bank of Canada will implement an expansionary monetary policy, which helps to close the gap.
  - C) firms and households are aware of the announced inflation target and adjust their behaviour to maintain this level of inflation.
  - D) when an output gap opens in the economy, the inflationary target adjusts to close the gap.
  - E) none of the above.

The table below provides macroeconomic data for a hypothetical economy. Dollar amounts are all in constant-dollar terms.

<u>Year</u>	<u>Actual Output</u> (billions of \$)	<u>Potential Output</u> (billions of \$)	<u>Unemployment Rate</u> (% of labour force)
2002	402	404	7.1
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2004	415	415	6.3
2005	420	418	5.9
2006	422	420	6.0
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2008	425	425	6.3

**TABLE 19-1**

- 88) Refer to Table 19-1. In which years are the factors of production in this economy being utilized at a *normal* rate? 88) \_\_\_\_\_
- A) 2004, 2008
  - B) 2005, 2006
  - C) 2002, 2003, 2007
  - D) all years
  - E) none of the years
- 89) Which of the following is the most appropriate measure for evaluating the average material living standards of Canadian residents? 89) \_\_\_\_\_
- A) disposable income
  - B) per capita Net National Product
  - C) per capita Gross National Product
  - D) Net Domestic Income at Factor Cost
  - E) per capita Gross Domestic Product

- 90) Jean Brisbois' disposable income rose from \$40 000 per year to \$42 000 and his desired consumption expenditure rose from \$38 000 to \$39 600. It can be concluded that his 90) \_\_\_\_\_
- A) average propensity to consume decreased from 0.950 to 0.943.
  - B) marginal propensity to consume is 0.050.
  - C) marginal propensity to consume increased from 0.050 to 0.058.
  - D) average propensity to save decreased from 0.950 to 0.943.
  - E) marginal propensity to save is 0.80.
- 91) An upward shift and flattening of the net export (NX) function can be caused by 91) \_\_\_\_\_
- A) an increase in domestic national income.
  - B) a decrease in foreign national income.
  - C) a decrease in domestic prices.
  - D) an increase in the Canadian-dollar price of foreign currency.
  - E) both C and D are correct
- 92) Other things being equal, a \_\_\_\_\_ marginal propensity to spend will lead to a \_\_\_\_\_ AD 92) \_\_\_\_\_  
curve.
- A) lower; rightward shift of the
  - B) higher; steeper
  - C) lower; flatter
  - D) higher; flatter
  - E) lower; leftward shift of the
- 93) In macroeconomic analysis, the assumption that potential output ( $Y^*$ ) is changing is a 93) \_\_\_\_\_  
characteristic of
- A) the short run.
  - B) the national accounts model.
  - C) the long run.
  - D) the adjustment process.
  - E) the business cycle model.
- 94) An increase in potential GDP would most likely be caused by a (an) 94) \_\_\_\_\_
- A) decrease in factor-utilization rates.
  - B) decrease in saving in the short run.
  - C) increase in the unemployment rate.
  - D) increase in factor productivity.
  - E) increase in interest rates.



- 95) In the long run, an increase in the demand for investment pushes \_\_\_\_\_ the real interest rate, encourages \_\_\_\_\_ saving by households, and leads to a \_\_\_\_\_ future growth rate of potential output. 95) \_\_\_\_\_
- A) up; less; lower
  - B) up; more; higher
  - C) up; more; lower
  - D) down; less; lower
  - E) down; less; higher
- 96) The basic functions of the Bank of Canada include 96) \_\_\_\_\_
- A) acting as lender of last resort to the commercial banks.
  - B) supporting the financial markets.
  - C) regulating the money supply.
  - D) acting as banker for the chartered banks.
  - E) all of the above
- 97) If there are just two assets, bonds and money, then an excess demand for money implies 97) \_\_\_\_\_
- A) an indeterminant equilibrium in the bond market.
  - B) nothing about conditions of demand for the other financial asset.
  - C) an excess demand for bonds.
  - D) equilibrium in the bond market.
  - E) an excess supply of bonds.
- 98) During the period of economic recovery between 1983 and 1987, the main challenge for the Bank of Canada was to 98) \_\_\_\_\_
- A) increase the money supply so that only a mild form of inflation would reappear.
  - B) stabilize the exchange rate between the U.S. and Canadian dollars.
  - C) accommodate the recovery, and the associated growth in money demand, without increasing the money supply so much as to refuel inflation.
  - D) decrease the money supply to dampen inflationary expectations.
  - E) stabilize the unemployment rate.
- 99) Suppose the city of Calgary, Alberta has a population of 1 million, a labour force of 575 000, and employment is equal to 545 000. The unemployment rate in Calgary is approximately 99) \_\_\_\_\_
- A) 3.0 percent.
  - B) 5.2 percent.
  - C) 5.5 percent.
  - D) 54.5 percent.
  - E) 57.5 percent.

The table below includes data required to calculate GDP from the expenditure side.

Investment expenditure	\$402.00
Wages and salaries	\$1741.00
Consumption expenditure	1302.40
Interest and investment income	\$99.40
Business profits	\$70.40
Depreciation	\$199.20
Government purchases	\$486.80
Net exports	\$94.00

TABLE 20-1

100) Refer to Table 20-1. What is the value of GDP?

100) \_\_\_\_\_

- A) \$1986.00      B) \$2285.20      C) \$2584.40      D) \$2010.00      E) \$1982.60

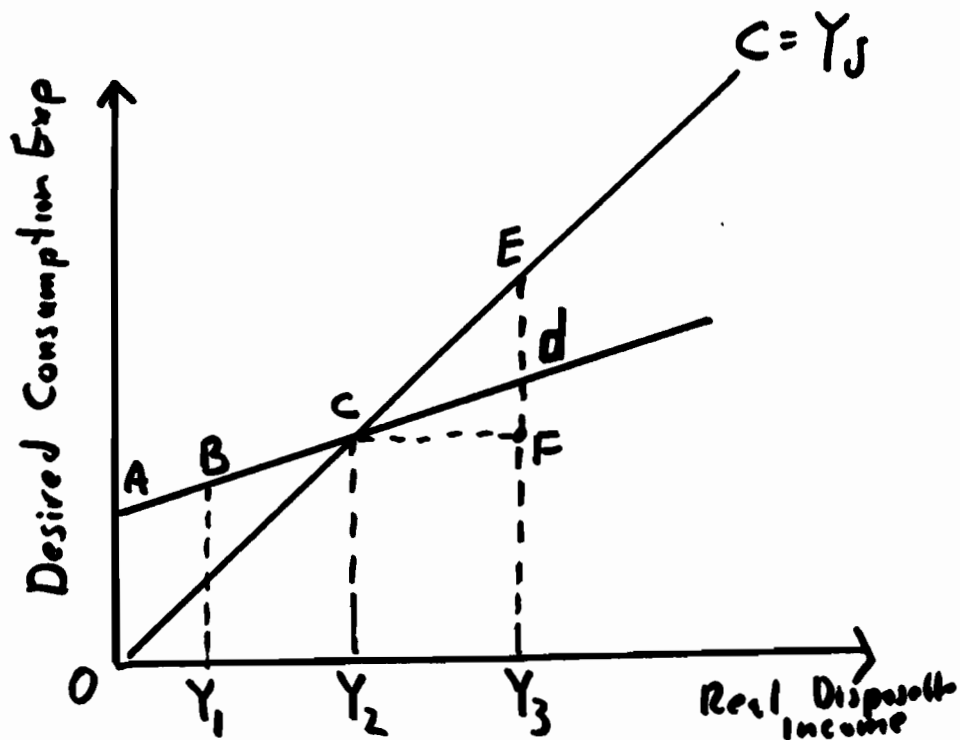


FIGURE 21-1

101) Refer to Figure 21-1. If disposable income is zero, then

101) \_\_\_\_\_

- A) autonomous desired saving will be  $OA$ .  
 B) autonomous desired consumption is  $OA$ .  
 C) autonomous desired consumption is  $OY_1$ .  
 D) the level of desired saving will be  $OA$ .  
 E) desired consumption must also be zero.

- 102) In an open economy with government and demand-determined output in the short run, a specific "target" level of national income
- A) can be achieved by changing  $G$ , but not  $T$ .
  - B) can be achieved only by changing both  $G$  and  $T$  at the same time.
  - C) cannot be achieved by any of the government's fiscal policy tools.
  - D) can be achieved by changes in  $G$ ,  $T$ , or both.
  - E) can be achieved by changing  $T$ , but not  $G$ .

102) \_\_\_\_\_

- 103) Consider the basic AD/AS macro model. The simple multiplier is reflected by the
- A) size of the rightward shift of the  $AD$  curve in response to a change in autonomous expenditure.
  - B) horizontal distance between initial macroeconomic equilibrium and the new intersection of  $AD$  and  $AS$  in response to a change in autonomous expenditure.
  - C) size of the upward shift of the  $AD$  curve in response to a change in autonomous expenditure.
  - D) upward movement along the  $AD$  curve in response to a change in autonomous expenditure.
  - E) downward movement along the  $AD$  curve in response to a change in autonomous expenditure.

103) \_\_\_\_\_

The diagram below shows an AD/AS model for a hypothetical economy which is initially in a short-run equilibrium at point A.

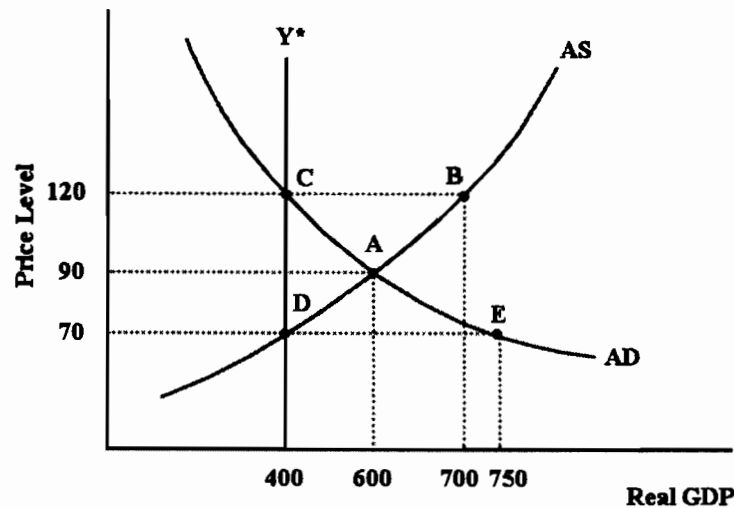


FIGURE 24-6

- 104) Consider Figure 24-6. The government could close the existing output gap by
- A) increasing the net tax rate.
  - B) increasing government purchases.
  - C) decreasing government transfer payments.
  - D) decreasing the net tax rate.
  - E) implementing an expansionary fiscal policy.

104) \_\_\_\_\_

105) Many economists argue that Japan's remarkable long-run growth rate between 1950 and 1990 was largely due to Japan's

105) \_\_\_\_\_

- A) high consumption rate for high quality electronic products.
- B) high national saving rate.
- C) skilled labour force that developed over those forty years.
- D) restrictive trade barriers which eliminated foreign competition.
- E) excessive amounts of money invested into research and development.