

Instructions: Please fill in your name and student number on every page of the exam questionnaire and on the NCS sheet. Use the NCS sheet to answer the Multiple Choice questions. There are 43 questions in total (41 multiple choice and 3 short-answer questions). This exam has 10 pages—check that this copy has all of them. Good luck

Multiple-Choice Questions (82 points—2 points per question)

Identify the letter of the choice that best completes the statement or answers the question.

1. Which of the following measures a nation's standard of living?
 - a. real GDP
 - b. real GDP per person
 - c. nominal GDP
 - d. nominal GDP per person

2. In an economy consisting of only households and firms, how can GDP be computed?
 - a. by adding up the total expenditures of households and subtracting savings
 - b. by adding up the income paid by firms only in exchange for labour
 - c. by adding up either total income paid by firms, or total expenditures of households, but not both
 - d. by adding up both the total expenditures of households and total income paid by firms

3. A professional gambler moves from a province where gambling is illegal to a province where gambling is legal. What impact does this move have on Canada's GDP?
 - a. It raises GDP.
 - b. It decreases GDP.
 - c. It does not change GDP because gambling is never included in GDP.
 - d. It does not change GDP because in either case his income is included.

4. Over time, people have come to rely more on market-produced goods and less on goods that they produce for themselves. What would this change do by itself?
 - a. It would make GDP fall over time.
 - b. It would not make any change in GDP over time.
 - c. It would make GDP rise over time.
 - d. It would change GDP, but in an uncertain direction.

5. How are goods that go into inventory and are not sold during the current period treated in GDP terms?
 - a. They are counted as intermediate goods and so are not included in current-period GDP.
 - b. They are counted in current GDP only if the firm that produced them sells them to another firm.
 - c. They are included in current-period GDP as inventory investment.
 - d. They are included in current-period GDP as consumption.

6. If a Canadian citizen buys a television made in Korea made by a Korean firm, what is the impact on net exports and GDP?
 - a. Canadian net exports decrease, and Canadian GDP decreases.
 - b. Canadian net exports are unaffected, and Canadian GDP decreases.
 - c. Canadian net exports are unaffected, and Canadian GDP is unaffected.
 - d. Canadian net exports decrease but Canadian GDP is unaffected.

7. Many things that society values, such as good health, high-quality education, enjoyable recreation opportunities, and desirable moral attributes of the population, are **NOT** measured as part of GDP. According to most economists, why is GDP a useful measure of society's well-being?
- GDP is not a useful measure of society's well-being because it does not measure many things that society values.
 - GDP is a useful measure of society's well-being because providing these other attributes is the responsibility of government.
 - GDP is a useful measure of society's well-being because it measures a nation's ability to produce the things that contribute to well-being.
 - GDP is an excellent measure of society's well-being because these other values cannot actually be measured.
8. Suppose that 25 years ago a country had nominal GDP of 1000, a GDP deflator of 200, and a population of 100. Today that country has a nominal GDP of 3000, a deflator of 400, and a population of 150. What happened to the real GDP per person?
- It more than doubled.
 - It rose, but less than doubled.
 - It fell.
 - It has not changed.
9. Suppose GDP consists of wheat and rice. In 2006, 20 bushels of wheat are sold at \$4 per bushel, and 10 bushels of rice are sold at \$2 per bushel. If the price of wheat was \$2 per bushel and the price of rice was \$1 per bushel in 2001, the base year, what can we conclude?
- Nominal 2006 GDP is \$100, real 2006 GDP is \$50, and the GDP deflator is 50.
 - Nominal 2006 GDP is \$100, real 2006 GDP is \$50, and the GDP deflator is 200.
 - Nominal 2006 GDP is \$50, real 2006 GDP is \$100, and the GDP deflator is 200.
 - Nominal 2006 GDP is \$40, real 2006 GDP is \$100, and the GDP deflator is 50.
10. In 2002 dollars, real GDP per person in Canada was about
- \$25,000 in 2010.
 - \$30,000 in 2010.
 - \$35,000 in 2010.
 - \$40,000 in 2010.
 - \$45,000 in 2010.
11. Which of the following situations is described by the term "inflation"?
- The overall level of prices in the economy is increasing.
 - Incomes in the economy are increasing.
 - Stock-market prices are rising.
 - The economy is growing rapidly.
12. What does the CPI measure?
- the overall price of inputs purchased by a typical producer
 - the overall price of goods and services bought by a typical consumer
 - the overall price of goods and services produced in the economy
 - the overall price of stocks on the Toronto Stock Exchange

13. Which of the following agencies calculates the CPI?
- a. the National Price Board
 - b. the Department of Weight and Measurements
 - c. Statistics Canada
 - d. the Ministry of Finance

Use the table below to answer the following questions.

Table 1

year	price of pork	price of corn
2010	\$20	\$12
2011	\$25	\$18

14. **Refer to Table 1.** Suppose that the basket of goods in the CPI consisted of 3 units of pork and 4 units of corn. What is the inflation rate for 2011?
- a. 21.33 percent
 - b. 25 percent
 - c. 28.89 percent
 - d. 36.11 percent
15. Suppose that the CPI is currently 400 and was 100 in 1969. Then, according to the CPI, \$100 today purchases the same amount of goods and services as what amount in 1969?
- a. \$25
 - b. \$40
 - c. \$60
 - d. \$400
16. Between July 2010 and August 2010, consumer prices in Canada increased by about
- a. 2.0 percent but are expected to increase because of the looming recession.
 - b. 2.5 percent, at the same rate as the Bank of Canada's core CPI
 - c. 3.5 percent and were largely driven by higher prices in gasoline.
 - d. 5.0 percent, the fastest since August 2003.
17. Suppose the price of a litre of milk rises from \$1 to \$1.25 and the price of a T-shirt rises from \$8 to \$10. If the CPI rises from 150 to 175, what will people likely buy?
- a. more milk and more T-shirts
 - b. more milk and fewer T-shirts
 - c. less milk and more T-shirts
 - d. less milk and fewer T-shirts
18. Suppose that increases in the prices of Canadian medical care cause the CPI to increase by 2 percent, while all other prices remain the same. By how much will the GDP deflator increase?
- a. more than 2 percent
 - b. 2 percent
 - c. less than 2 percent
 - d. There is insufficient information. The change in GDP deflator could be more, equal, or less than 2 percent.

19. For some racquet sports there have been increases in the size of the racquets and the methods and materials used for making them have improved. Which of the following problems in the construction of the CPI is this change in racquets most relevant to?
- substitution bias
 - introduction of new goods
 - unmeasured quality change
 - income bias
20. Suppose that the nominal interest rate was 3 percent and the inflation rate was 1 percent. What happened with the value of savings?
- The dollar value of savings increased at 1 percent, and the value of savings measured in goods increased at 2 percent.
 - The dollar value of savings increased at 2 percent, and the value of savings measured in goods increased at 3 percent.
 - The dollar value of savings increased at 3 percent, and the value of savings measured in goods increased at 2 percent.
 - The dollar value of savings increased at 4 percent, and the value of savings measured in goods increased at 3 percent.
21. Which of the following statements best characterizes the variations in real GDP per person and its rate of growth across countries?
- Real GDP per person differs widely across countries, but the growth rate of real GDP per person is similar across countries.
 - Real GDP per person is very similar across countries, but the growth rate of real GDP per person differs widely across countries.
 - Real GDP per person and the growth rate of real GDP per person are similar across countries.
 - Real GDP per person and the growth rate of real GDP per person vary widely across countries.
22. Last year, real GDP in Oceania was \$620 billion and the population was 2.3 million. The year before, real GDP was \$502.0 billion and the population was 2.0 million. What was the approximate growth rate of real GDP per person?
- 16 percent
 - 13 percent
 - 10 percent
 - 7 percent
23. Which of the following is a correct way to measure productivity?
- divide the number of hours worked by output
 - divide output by the number of hours worked
 - compute output growth
 - divide the change in output by the change in number of hours worked
24. Why are Canadian workers more productive than the Chinese?
- because Canada is a federal state
 - because Canadians have more capital to work with
 - because prices are higher in Canada than in China
 - because the most productive Chinese workers have emigrated to Canada

25. Which of the following best describes the relationship between productivity and standard of living?
- International trade makes a country's productivity irrelevant.
 - A country's standard of living and its productivity are closely related.
 - Productivity only increases revenue to investors, while general well-being is not affected.
 - A rich country can enjoy high standard of living without the need for high productivity.
26. Which of the following best defines the catch-up effect?
- It is the idea that saving will always "catch up" with investment spending.
 - It is the idea that it is easier for a country to grow fast and "catch up" with richer countries if it starts out relatively poor.
 - It is the idea that rich countries aid relatively poor countries so as to help them "catch up."
 - It is the idea that if investment spending is low, increased saving will help investment to "catch up."
27. In which of the following types of investment do foreigners buy shares in domestic companies?
- foreign direct investment
 - foreign portfolio investment
 - foreign capital investment
 - foreign indirect investment
28. Recently there have been violent protests against the World Bank and the World Trade Organization. The protesters argue that these institutions promote free trade and also encourage corporations in rich countries to invest in poor countries. The protesters contend that these practices make rich countries richer and poor countries poorer. How would economists feel about these protesters' views?
- They would disagree with the protesters because these practices will help make both rich and poor countries richer.
 - They would disagree with the protesters about free trade, but would agree with the protesters about corporate investment.
 - They would disagree with the protesters about corporate investment, but would agree with the protesters about free trade.
 - They would agree with the protesters.
29. What is a valid policy to use for increasing the rate of economic growth?
- reduce reliance on market forces because they allocate goods and services in an unfair manner
 - encourage trade with neighbouring countries
 - increase the fraction of GDP devoted to consumption
 - restrict investment in domestic industries by foreigners because they take some of the profits out of the country
30. Which of the following is the source of most technological progress?
- private research by firms and individual inventors
 - private research by firms and government
 - government research
 - government-sponsored research by universities

31. When opening a restaurant, you may need to buy ovens, freezers, tables, and cash registers. What do economists call these expenditures?
- capital investment
 - investment in human capital
 - business consumption expenditures
 - inventories
32. If the government's expenditures exceeded its receipts, what would it most likely do?
- It would lend money to a bank or other financial intermediary.
 - It would borrow money from a bank or other financial intermediary.
 - It would directly buy bonds from the public.
 - It would directly sell bonds to the public.
33. Which of the following people purchased the correct asset to meet their objective?
- Michelle wanted to be a part owner of Mamma Rosa's Pizza, so she purchased a bond issued by Mamma Rosa's Pizza.
 - Tim wanted a high return, even if it meant taking some risk, so he purchased stock issued by Specific Electric instead of bonds issued by Specific Electric.
 - Jennifer wanted to buy equity in Honda, so she purchased bonds sold by Honda.
 - George wanted to lend money at a specified rate of interest to Research In Motion (RIM), so he buys RIM stock.
34. Suppose that the government finds a major defect in one of a company's products and demands that it be taken off the market. Which of the following would we expect?
- The supply of the stock and the price will both rise.
 - The supply of the stock and the price will both fall.
 - The demand for the stock and the price will both rise.
 - The demand for the stock and the price will both fall.
35. What is the source of the supply of and demand for loanable funds, respectively?
- saving and investment
 - investment and saving
 - saving and saving
 - investment and investment
36. What does the slope of the supply of loanable funds curve represent?
- the positive relation between the real interest rate and investment
 - the positive relation between the real interest rate and saving
 - the negative relation between the real interest rate and investment
 - the negative relation between the real interest rate and saving
37. Which of the following best explains why the debt-to-GDP ratio is important?
- If GDP is rising slower than debt, the government is, in some sense, living within its means.
 - A declining debt-to-GDP ratio raises concerns about a country's financial difficulties.
 - It is a better measure than the level of debt because it takes into account a country's net exports.
 - It allows international comparisons of how indebted countries are.

38. Suppose equilibrium exists in the market for loanable funds of Samiam (a closed economy). Using the following table, what is investment in Samiam?

GDP	\$8.7 trillion
Consumption Spending	\$3.5 trillion
Taxes minus Transfers	\$2.7 trillion
Government Purchases	\$3.0 trillion

- a. \$2.2 trillion
b. \$2.5 trillion
c. \$2.8 trillion
d. \$3.1 trillion
39. Other things the same, if the government lowers transfer payments to households, then
- a. investment will rise.
b. the rate of interest will rise.
c. public saving will decrease.
d. the market for loanable funds will be unaffected.
e. None of the above will occur.
40. All other things equal, what is the impact of a sudden decrease in interest rates on the price of (existing) bonds and stocks?
- a. Both the price of bonds and the price of stocks increase.
b. The price of bonds increases and the price of stocks decreases.
c. The price of bonds decreases and the price of stocks increases.
d. Both the price of bonds and the price of stocks decrease.
41. Suppose the inflation rate is 3% and the tax rate on financial investment income is 30%. What is the after-tax increase in purchasing power if \$1000 is lent at 6% for one year?
- a. -\$12.
b. \$12.
c. \$30.
d. \$42
e. \$60

Short-Answer Questions (18 points)

Answer in the space provided

42.(4 points) Answer the questions below about Canada's recent productivity performance. Your answer may be in point form.

a. What has been Canada's productivity performance in recent years? (relative to that of the U.S. for example)

b. Provide some elements of explanation for that performance.

