

ECO 1102

INTRODUCTION TO MACROECONOMICS
SAMPLE FINAL EXAMINATION
(ANSWERS ARE NOT AVAILABLE)

1. Which of the following is correct?
 - a. The value of all intermediate goods and final goods are included in GDP.
 - b. The value of intermediate goods are included in GDP only if they were produced in the previous year.
 - c. The value of intermediate goods are included in GDP only if they are purchased by firms rather than households.
 - d. The value of intermediate goods are not included in GDP.

2. According to the misperceptions theory, if a firm thought that inflation was going to be 5 percent and actual inflation was 6 percent, the firm would believe that the relative price of what they produce had
 - a. increased, so they would increase production.
 - b. increased, so they would decrease production.
 - c. decreased, so they would increase production.
 - d. increased, so they would decrease production.

3. Which of the following is counted in GDP?
 - a. the estimated value of housework
 - b. the value of illegally produced goods and services
 - c. the value of newly issued stocks and bonds
 - d. None of the above is correct.

4. You bake cookies. One day you double the time you spend, double the number of chocolate chips, flour, eggs, and all your other inputs, and bake twice as many cookies. Your cookie production function has
 - a. decreasing returns to scale.
 - b. zero returns to scale.
 - c. constant returns to scale.
 - d. increasing returns to scale.
 - e. None of the above is correct.

5. If the public decides to hold more currency and fewer deposits in banks, bank reserves
 - a. decrease and the money supply eventually decreases.
 - b. decrease but the money supply does not change.
 - c. increase and the money supply eventually increases.
 - d. increase but the money supply does not change.

6. The substitution bias in the consumer price index refers to the
 - a. substitution of new goods for old goods in the purchases of consumers.
 - b. substitution of quality for quantity in consumer purchases over time.
 - c. fact that consumers substitute toward goods that have become relatively less expensive.
 - d. substitution of new prices for old prices in the basket of goods from one year to the next.

7. At the equilibrium interest rate in the open economy macroeconomic model, the amount that people want to save equals the desired quantity of
 - a. net capital outflow.
 - b. domestic investment.
 - c. net capital outflow plus domestic investment.
 - d. net capital outflow minus domestic investment.
 - e. foreign currency supplied.

8. Liquidity preference theory is most relevant to the
 - a. short run and supposes that the price level adjusts to bring money supply and money demand into balance.
 - b. short run and supposes that the interest rate adjusts to bring money supply and money demand into balance.
 - c. long run and supposes that the price level adjusts to bring money supply and money demand into balance.
 - d. long run and supposes that the interest rate adjusts to bring money supply and money demand into balance.

9. If the Bank of Canada sells government bonds to the public, bank reserves tend to
 - a. increase and the money supply increases.
 - b. increase and the money supply decreases.
 - c. decrease and the money supply increases.
 - d. decrease and the money supply decreases.

10. The effect of an increase in the price level is represented by a
 - a. shift to the right of the aggregate demand curve.
 - b. shift to the left of the aggregate demand curve.
 - c. movement to the left along a given aggregate demand curve.
 - d. movement to the right along a given aggregate demand curve.

11. Rick loses his job and immediately begins looking for another. Other things being equal, the unemployment rate
 - a. increases, and the labour-force participation rate decreases.
 - b. increases, and the labour-force participation rate is unaffected.
 - c. is unaffected, and the labour-force participation rate increases.
 - d. decreases, and the labour-force participation rate is unaffected.

12. Assume that the money market is drawn with the value of money on the vertical axis. If the value of money is below the equilibrium level,
 - a. the price level will rise.
 - b. the value of money will rise.
 - c. money demand will shift left.
 - d. money demand will shift right.
 - e. money supply will shift right.

13. The Bank of Canada's policy decisions have an important influence on
 - a. both the rate of inflation and the level of employment in the short run.
 - b. the rate of inflation in the long run and the level of employment in the short run.
 - c. the rate of inflation in the short run and the level of employment in the long run.
 - d. both the rate of inflation and the level of employment in both the short run and the long run.

14. According to the principle of monetary neutrality, a decrease in the money supply will not change
 - a. nominal GDP.
 - b. the price level.
 - c. unemployment.
 - d. the nominal wage rate.
 - e. All of the above are correct.

15. The natural unemployment rate includes
 - a. both frictional and structural unemployment.
 - b. neither frictional nor structural unemployment.
 - c. structural, but not frictional unemployment.
 - d. frictional, but not structural unemployment.

16. The time inconsistency of policy implies that
 - a. what policymakers say they will do is generally what they will do, but people don't believe them because of current policy.
 - b. when people expect that inflation will be low, it is harder for the Bank of Canada to increase output by increasing the money supply.
 - c. people will believe the Bank of Canada policy will be more inflationary than the Bank of Canada claims.

- d. None of the above is correct.
17. According to the classical dichotomy, which of the following increases when the money supply increases?
- The real interest rate
 - Real GDP
 - The real wage
 - None of the above increases.
18. Suppose that the money supply increases. In the short run, this increases prices according to
- both the short-run Phillips curve and the aggregate demand and aggregate supply model.
 - neither the short-run Phillips curve nor the aggregate demand and aggregate supply model.
 - only the short-run Phillips curve.
 - only the aggregate demand and aggregate supply model.
19. The price index in the first year is 100, in the second year is 90, and in the third year is 80. What is the deflation rate between the first and second year, and between the second and third year?
- 11 percent between the first and second year, 11 percent between the second and third year
 - 11 percent between the first and second year, 12 percent between the second and third year
 - 10 percent between the first and second year, 11 percent between the second and third year
 - 10 percent between the first and second year, 12 percent between the second and third year
 - None of the above is correct.
20. Interest rates stated in the *Wall Street Journal* are
- classical variables.
 - dichotomous variables.
 - nominal variables.
 - real variables.
 - dependent variables.
21. Suppose that in a closed economy GDP is equal to \$15,000, Taxes are equal to \$2,500, Consumption equals \$7,500, and Government expenditures equal \$3,000. What are private saving and public saving?
- 6,000 and -600
 - 5,000 and -500
 - 5000 and 500
 - 6,000 and 600
 - None of the above is correct.

22. If Canada imposes an import quota on clothing, Canadian exports
- increase, Canadian imports increase, and Canadian net exports are unchanged.
 - increase, Canadian imports decrease, and Canadian net exports increase.
 - decrease, Canadian imports increase, and Canadian net exports decrease.
 - decrease, Canadian imports decrease, and Canadian net exports are unchanged.
23. Which of the following would a macroeconomist consider as investment?
- Ernest purchases a bond issued by Star-Kist.
 - Jerry purchases stock issued by IBM.
 - Alice builds a new restaurant.
 - All of the above are correct.
24. A country has \$150 million of net exports and \$190 million of saving. Net capital outflow is
- \$40 million and domestic investment is \$190 million.
 - \$40 million and domestic investment of \$150 million.
 - \$150 million and domestic investment is \$40 million.
 - \$190 million and domestic investment is \$40 million.
 - \$190 million and domestic investment of \$150 million
25. An increase in the minimum wage would
- increase both the quantity demanded and the quantity supplied of labour.
 - decrease both the quantity demanded and the quantity supplied of labour.
 - increase the quantity of labour demanded while decreasing the quantity supplied.
 - decrease the quantity of labour demanded while increasing the quantity supplied.
 - have no effect on the labour market
26. Which list contains only actions that increase the money supply?
- Lower the bank rate, raise the desired reserve ratio
 - Lower the bank rate, lower the desired reserve ratio
 - Raise the bank rate, raise the desired reserve ratio
 - Raise the bank rate, lower the desired reserve ratio
27. Productivity
- is nearly the same across countries and so provides no help explaining differences across countries in the standard of living.
 - explains very little of the differences across countries in the standard of living.
 - explains some, but not most of the differences across countries in the standard of living.
 - explains most of the differences across countries in the standard of living.
28. According to the crowding-out effect, an increase in government spending

- a. increases the interest rate and so increases investment spending.
 - b. increases the interest rate and so decreases investment spending.
 - c. decreases the interest rate and so increases investment spending.
 - d. decreases the interest rate and so decreases investment spending.
29. The supply of money increases when
- a. the value of money increases.
 - b. the interest rate increases.
 - c. the Bank of Canada makes open-market purchases.
 - d. None of the above is correct.
30. When the real exchange rate for the dollar appreciates, Canadian goods become
- a. less expensive relative to foreign goods, which makes exports rise and imports fall.
 - b. less expensive relative to foreign goods, which makes exports fall and imports rise.
 - c. more expensive relative to foreign goods, which makes exports rise and imports fall.
 - d. more expensive relative to foreign goods, which makes exports fall and imports rise.
31. A Venezuelan firm purchases earth-moving equipment from a Canadian company and pays for it with domestic (Venezuelan) currency. This transaction
- a. increases Canadian net exports, and increases Venezuelan net capital outflow.
 - b. increases Canadian net exports, and decreases Venezuelan net capital outflow.
 - c. decreases Canadian net exports, and increases Venezuelan net capital outflow.
 - d. decreases Canadian net exports, and decreases Venezuelan net capital outflow.
32. Suppose a stock market crash makes people feel poorer. This decrease in wealth would induce people to
- a. decrease consumption, which shifts aggregate supply left.
 - b. decrease consumption, which shifts aggregate demand left.
 - c. increase consumption, which shifts aggregate supply right.
 - d. increase consumption, which shifts aggregate demand right.

Use Table 1 below to answer questions 33 and 34.

Table 1

<u>Year</u>	<u>Price of pork</u>	<u>Price of corn</u>
2005	\$20	\$12
2006	\$25	\$18

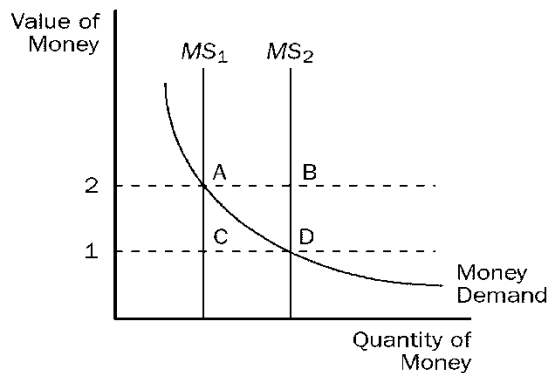
33. Suppose that the basket of goods in the CPI consisted of 3 units of pork and 4 units of corn. What is the inflation rate for 2006?

- a. 21.33 percent
 - b. 25 percent
 - c. 28.89 percent
 - d. 36.11 percent
34. Suppose that the basket of goods in the CPI consisted of 3 units of pork and 4 units of corn. What is the consumer price index for 2006 if the base year is 2005?
- a. 150
 - b. 136.11
 - c. 120
 - d. 109.22
 - e. 73.47
35. A nation's standard of living is measured by its
- a. real GDP.
 - b. real GDP per person.
 - c. nominal GDP.
 - d. nominal GDP per person.
36. Which of the following equations is correct?
- a. $S = I + C$
 - b. $S = I - NX$
 - c. $S = I + NCO$
 - d. $S = NX - NCO$.
 - e. $S = T + NCO$
37. The slope of the demand for loanable funds curve represents the
- a. positive relation between the real interest rate and investment.
 - b. negative relation between the real interest rate and investment.
 - c. positive relation between the real interest rate and saving.
 - d. negative relation between the real interest rate and saving.
38. Credit card balances are included in
- a. M1 but not M2.
 - b. M2 but not M1.
 - c. M1 and M2.
 - d. neither M1 nor M2.
39. Consider two people who are currently out of work. Deb is not currently looking for work but would like a job. Although she is not currently searching for work, she has done so at some time in the recent past. Ted is not looking for work, because he doesn't think there are jobs that he would qualify for available. Statistics Canada considers
- a. both Deb and Ted to be discouraged workers.

- b. only Ted to be a discouraged worker.
 - c. only Deb to be a discouraged worker.
 - d. neither Deb nor Ted to be discouraged workers.
40. If policymakers expand aggregate demand, inflation
- a. falls, but unemployment rises.
 - b. and unemployment fall.
 - c. and unemployment rise.
 - d. rises, but unemployment falls.
41. Which of the following is true?
- a. Although levels of real GDP per person vary substantially from country to country, the growth rate of real GDP per person is similar across countries.
 - b. Productivity is not closely linked to government policies.
 - c. The level of real GDP per person is a good gauge of economic prosperity, and the growth rate of real GDP per person is a good gauge of economic progress.
 - d. Productivity may be measured by the growth rate of real GDP per person.
 - e. All of the above are correct.
42. The short-run relationship between inflation and unemployment is often called
- a. the Classical Dichotomy.
 - b. Money Neutrality.
 - c. the Phillips curve.
 - d. the Keynesian cross.
 - e. the Solow/Samuelson curve.

Use Figure 1 below to answer questions 43 and 44.

Figure 1



43. If the money supply is MS_2 and the value of money is 2, there is excess
- a. demand equal to the distance between A and C.
 - b. demand equal to the distance between A and B.

- c. supply equal to the distance between A and C.
 - d. supply equal to the distance between A and B.
44. When the money supply curve shifts from MS_1 to MS_2 ,
- a. the demand for goods and services decreases.
 - b. the economy's ability to produce goods and services increases.
 - c. the equilibrium price level increases.
 - d. the equilibrium value of money increases.
 - e. None of the above is correct.
45. As the price level decreases, the value of money
- a. increases, so people want to hold more of it.
 - b. increases, so people want to hold less of it.
 - c. decreases, so people want to hold more of it.
 - d. decreases, so people want to hold less of it.
46. According to the quantity equation if $P = 4$ and $Y = 800$, which of the following pairs could M and V be?
- a. 800, 4
 - b. 600, 3
 - c. 400, 2
 - d. 200, 1
47. Which of the following does not determine the long-run level of real GDP?
- a. the price level
 - b. the supply of labour
 - c. available natural resources
 - d. available technology
48. Which of the following is not included in GDP?
- a. Unpaid cleaning and maintenance of houses
 - b. Services such as those provided by lawyers and hair stylists
 - c. Illegal drugs
 - d. Production of foreign citizens living in the Canada
 - e. Both a and c are correct.
49. An increase in the price level makes the dollars people hold worth
- a. more, so they spend more.
 - b. more, so they spend less.
 - c. less, so they spend more.
 - d. less, so they spend less.

50. The evidence gained from studying hyperinflation indicates that
- the rate of inflation is not closely related to the rate at which the money supply changes.
 - nominal interest rates are independent of the money supply.
 - inflation rates parallel money supply growth rates.
 - None of the above is correct.
51. An increase in the real interest rate
- discourages people from saving and so increases the quantity of loanable funds demanded.
 - discourages people from saving and so decreases the quantity of loanable funds demanded.
 - encourages people to save and so increases the quantity of loanable funds supplied.
 - encourages people to save and so decreases the quantity of loanable funds supplied.
52. The inflation tax
- transfers wealth from the government to households.
 - is the increase in income taxes due to lack of indexation.
 - is a tax on everyone who holds money.
 - All of the above are correct.
53. If the exchange rate changes from .35 Kuwaiti dinar per dollar to .30 Kuwaiti dinar per dollar, the dollar has
- appreciated and so buys more Kuwaiti goods.
 - appreciated and so buys fewer Kuwaiti goods.
 - depreciated and so buys more Kuwaiti goods.
 - depreciated and so buys fewer Kuwaiti goods.
54. If the desired reserve ratio is 10 percent and a bank receives a new deposit of \$20, this bank
- must increase its desired reserves by \$2.
 - will initially see its total reserves increase by \$2.
 - will be able to make new loans up to a maximum of \$2.
 - All of the above are true.
55. If a country went from a government budget deficit to a surplus,
- national savings would increase shifting the supply of loanable funds right.
 - national savings would increase shifting the supply of loanable funds left.
 - national savings would decrease shifting the demand for loanable funds right.
 - national savings would decrease shifting the demand for loanable funds left.

56. A movie company makes 500,000 DVDs of one of its latest releases. It sells 300,000 of them before the end of the second quarter, and holds the others in its warehouse.
- The DVDs will be counted as a change in inventory in the second quarter and so will be included in second-quarter GDP.
 - Since the DVDs were not purchased this quarter, they will be counted as an increase in third-quarter GDP.
 - Since the DVDs will eventually be bought by consumers, they are included as consumption in the second quarter.
 - The DVDs will be counted as a change in inventory in the second quarter, and when sold in the third quarter will raise GDP.
57. Financial intermediaries are
- the same as financial markets.
 - individuals who make a profits by buying a stock low and selling it high.
 - a more general name for financial assets such as stocks, bonds, and checking accounts.
 - financial institutions through which savers can indirectly provide funds to borrowers.
58. The bank rate is
- the interest rate the Bank of Canada charges banks.
 - one divided by the difference between one and the reserve ratio.
 - the interest rate banks receive on reserve deposits with the Bank of Canada.
 - the interest rate that banks charge on overnight loans to other banks.
59. If an unemployed person quits looking for work, other things being equal, the unemployment rate
- decreases, and the participation rate increases
 - decreases, and the participation rate decreases
 - stays the same, and the participation rate decreases
 - and the labour force participation rate stay the same.
60. The price level is
- a relative variable.
 - an actual variable.
 - a real variable.
 - a nominal variable.
 - an endogenous variable.
61. In the market for foreign currency exchange in the open economy macroeconomic model, the amount of net capital outflow represents the quantity of dollars
- supplied for the purpose of selling assets domestically.
 - supplied for the purpose of buying assets abroad.
 - demanded for the purpose of buying Canadian net exports of goods and services.
 - demanded for the purpose of importing foreign goods and services.

62. A decrease in the price level causes the interest rate to
- increase, the dollar to appreciate, and net exports to increase.
 - increase, the dollar to depreciate, and net exports to decrease.
 - decrease, the dollar to depreciate, and net exports to increase.
 - decrease, the dollar to appreciate, and net exports to decrease.
63. Mia puts money into a piggy bank so she can spend it later. What function of money does this illustrate?
- Store of value
 - Medium of exchange
 - Unit of account
 - None of the above is correct.
64. When the Bank of Canada decreases the bank rate, banks borrow more from the Bank of Canada, lend
- more to the public, and so the money supply will decrease.
 - less to the public, and so the money supply will decrease.
 - more to the public, and so the money supply will increase.
 - less to the public, and so the money supply will increase.
65. Which of the following is *not* an argument in *favour* of policymakers trying to stabilize the economy?
- Recessions represent a waste of resources.
 - Pessimism on the part of households and firms may become a self-fulfilling prophecy.
 - "Leaning against the wind" requires policymakers to increase aggregate demand in recessions and reduce aggregate demand in booms.
 - Macroeconomic theory is not developed sufficiently to show policymakers how to change aggregate demand.
66. Which of the following shifts money demand to the right?
- An increase in either the price level or the interest rate
 - An increase in the price level or a decrease in the interest rate
 - A decrease in the interest rate but not a change in the price level
 - An increase in the price level but not a change in the interest rate
67. Opponents of using policy to stabilize the economy generally believe that
- neither fiscal nor monetary policy have much impact on aggregate demand.
 - attempts to stabilize the economy can increase the magnitude of economic fluctuations.
 - unemployment and inflation are not cause for much concern.
 - All of the above are correct.

68. There is a
- short-run tradeoff between inflation and unemployment.
 - short-run tradeoff between the actual unemployment rate and the natural rate of unemployment.
 - long-run tradeoff between inflation and unemployment.
 - long-run tradeoff between the actual unemployment rate and the natural rate of unemployment.
69. Laura buys word processing software in 2005 for \$50. Laura's twin brother Laurence buys an upgrade of the same software in 2006 for \$50. What problem in the construction of the CPI does this situation best represent?
- Substitution bias
 - Unmeasured quality change
 - Introduction of new goods
 - Income bias
70. Suppose that real GDP grew more in Country A than in Country B last year.
- Country A must have a higher standard of living than country B.
 - Country A's productivity must have grown faster than country B's.
 - Both of the above are correct.
 - None of the above is correct.
71. The labour force participation rate is computed as the number of adults in the labour force
- divided by the adult population times 100.
 - divided by the number of unemployed times 100.
 - divided by the unemployment rate times 100.
 - times the participation rate times 100
 - None of the above is correct.
72. Last year real GDP in Oceania was \$620 billion and the population was 2.3 million. The year before real GDP was \$502 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
 - 4 percent
73. In the long run, which of the following would shift the long-run Phillips curve to the right?
- An increase in the minimum wage
 - An increase in the money supply
 - A decrease in the money supply
 - Tax cuts

- e. An increase in government expenditures.
74. In Canada, a three-pound can of coffee costs about \$6. Suppose the exchange rate is about 0.7 euros per dollar and that a three-pound can of coffee in Belgium costs about 2.1 euros. What is the real exchange rate?
- a. 2.45 cans of Belgian coffee per can of Canadian coffee
 - b. 2 cans of Belgian coffee per can of Canadian coffee
 - c. $\frac{3}{4}$ cans of Belgian coffee per can of Canadian coffee
 - d. $\frac{3}{5}$ cans of Belgian coffee per can of Canadian coffee
 - e. $\frac{1}{2}$ cans of Belgian coffee per can of Canadian coffee
75. Most spells of unemployment are
- a. long, and most unemployment observed at any given time is long term.
 - b. long, but most unemployment observed at any given time is short term.
 - c. short, but most unemployment observed at any given time is long term.
 - d. short, and most unemployment observed at any given time is short term.
76. In a small open economy with a flexible exchange rate, a monetary injection by the bank of Canada causes
- a. the dollar to appreciate in value.
 - b. net exports to fall
 - c. an additional decrease in demand for Canadian-produced goods and services that is not realized in a closed economy.
 - d. the aggregate demand curve to shift farther to the right than it does in a closed economy.
 - e. All of the above are correct.
77. If a bank uses \$80 of reserves to make a new loan when the desired reserve ratio is 25 percent, the
- a. money supply initially decreases by \$80.
 - b. money supply initially increases by \$20.
 - c. money supply will eventually increase by more than \$20 but less than \$80.
 - d. level of wealth in the economy will not change.
78. In a closed economy, national saving equals
- a. investment.
 - b. income minus the sum of consumption and government expenditures.
 - c. private saving plus public saving.
 - d. All of the above are correct.
79. A decrease in the money supply creates an excess
- a. supply of money that is eliminated by rising prices.
 - b. supply of money that is eliminated by falling prices.
 - c. demand for money that is eliminated by rising prices.

- d. demand for money that is eliminated by falling prices.
80. M1 includes
- a. currency.
 - b. demand deposits.
 - c. travelers' checks.
 - d. foreign currency accounts
 - e. Both a and b.
81. The aggregate supply curve is vertical in
- a. the short and long run.
 - b. neither the short nor long run.
 - c. the long run, but not the short run.
 - d. the short run, but not the long run.
82. A government can encourage growth and, in the long run, raise the economy's standard of living by encouraging
- a. population growth.
 - b. consumption.
 - c. saving and investment.
 - d. spending.
 - e. Both c and d are correct.
83. Bolivia buys railroad engines from a Canadian firm and pays for them with Bolivianos (Bolivian currency). By itself, this transaction
- a. increases both Canadian net exports and Canadian net foreign investment.
 - b. decreases both Canadian net exports and Canadian net foreign investment.
 - c. increases Canadian net exports and does not affect Canadian net foreign investment.
 - d. None of the above is correct.
84. Who would be included in the labour force?
- a. Karen, who works most of the week in a steel factory
 - b. Beth, who is waiting for her new job at the bank to start
 - c. Dave, who does not have a job, but is looking for work
 - d. All of the above are included in the labour force.
85. If you deposit \$100 into a demand deposit at a bank, this action by itself
- a. does not change the money supply.
 - b. increases the money supply.
 - c. decreases the money supply.
 - d. has an indeterminate effect on the money supply.