

204F13A

Multiple Choice

Using a pencil choose the correct answer on your *scantron form*.

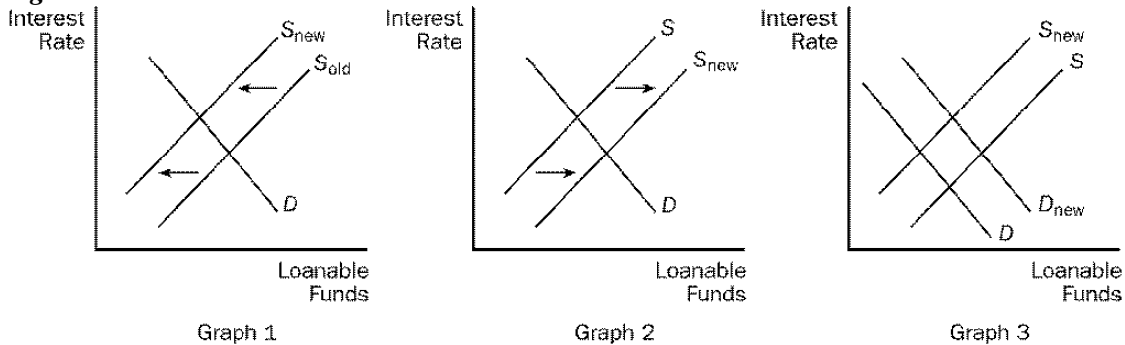
- ___ 1. What would happen in the market for loanable funds if the government were to decrease the tax rate on interest income?
 - a. The supply of and demand for loanable funds would shift left.
 - b. The supply of loanable funds would shift right and the demand for loanable funds would shift left.
 - c. The supply of and demand for loanable funds would shift right.
 - d. None of the above are correct.

- ___ 2. In a closed economy, what does $(Y - T - C)$ represent?
 - a. government tax revenue
 - b. public saving
 - c. private saving
 - d. national saving

- ___ 3. Over time people have come to rely more on market-produced goods and less on goods that they produce for themselves. For example people eat at restaurants relatively more and prepare their own meals at home relatively less. By itself this change would
 - a. change GDP, but in an uncertain direction.
 - b. not make any change in GDP over time.
 - c. make GDP fall over time.
 - d. make GDP rise over time.

Use the figure below for the following questions.

Figure 26-1



- ___ 4. Refer to Figure 26-1. Which of the graphs in the figure above shows the effects of an increase in the tax rate on saving?
 - a. graph 1
 - b. graph 2
 - c. graph 3
 - d. None of the above are correct.

- _____ 5. Suppose that in a closed economy GDP is equal to 10,000, taxes are equal to 2,500 Consumption equals 6,500 and Government expenditures equal 2,000. What are private saving, public saving, and national saving?
- 1000, 500, 1500
 - 500, 1500, 1000
 - 1500, 1000, 500
 - None of the above are correct.
- _____ 6. In the country of Hyrkania, the CPI in 2005 was 140 and the CPI in 2006 was 154. Jake, a resident of Hyrkania, borrowed money in 2005 and repaid the loan in 2006. If the nominal interest rate on the loan was 14 percent, then the real interest rate was
- impossible to determine without knowing the base year for the CPI.
 - 14 percent.
 - 10 percent.
 - 4 percent.
- _____ 7. The natural unemployment rate includes
- frictional, but not structural unemployment.
 - structural, but not frictional unemployment.
 - both frictional and structural unemployment.
 - neither frictional nor structural unemployment.
- _____ 8. Suppose that Nova Scitia produces cheese and fish. In 2007, 20 units of cheese are sold at \$5 each, and 8 units of fish are sold at \$50 each. In 2006, the base year, the price of cheese was \$10 per unit, and the price of fish was \$75 per unit.
- Nominal 2007 GDP is \$500, real 2002 GDP is \$800, and the GDP deflator is 160.
 - Nominal 2007 GDP is \$800, real 2002 GDP is \$500, and the GDP deflator is 62.5.
 - Nominal 2007 GDP is \$500, real 2002 GDP is \$800, and the GDP deflator is 62.5.
 - Nominal 2007 GDP is \$800, real 2002 GDP is \$500, and the GDP deflator is 160.
 - None of the above is correct.
- _____ 9. 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?
- income bias
 - unmeasured quality change
 - introduction of new goods
 - substitution bias
- _____ 10. In 2007, Freedonia had a population of 2,700 and real GDP of about 1,080,000. In 2006 it had a population of 2,500 and real GDP of about 1,000,000. What was the approximate growth rate of real GDP per person in Freedonia between 2001 and 2002?
- 0 percent
 - 5 percent
 - 2.5 percent
 - 7.5 percent

- _____ 11. Dawn is the CEO of a corporation that hires nonunion labour. According to the theory of efficiency wages, if she decides to pay her workers more than the competitive equilibrium wage,
- the profits of her firm may increase.
 - she will face a shortage of labour.
 - the turnover of her workers may increase.
 - the higher wages will induce her workers to shirk.
 - All of the above are correct.
- _____ 12. Which of the following is a correct way to measure productivity?
- divide output by the number of hours worked
 - divide the number of hours worked by output
 - compute output growth
 - divide the change in output by the change in number of hours worked
- _____ 13. Suppose Mexico increases its saving rate. In the long run
- the growth rate of productivity increases, and real GDP per person increases.
 - productivity increases, and the growth rate of real GDP per person increases.
 - the growth rates of productivity and real GDP per person increase.
 - productivity and real GDP per person increase.
 - None of the above are correct.
- _____ 14. 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 when sold in the third quarter will raise GDP.
 - 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 will eventually be bought by consumers, they are included as consumption in the second quarter.
 - Since the DVDs were not purchased this quarter, they will be counted as an increase in third-quarter GDP.

Use the following information to answer the following questions.

In the country of Shem, the CPI is calculated using a market basket consisting of 5 apples, 4 loaves of bread, 3 robes and 2 gallons of gasoline. The per-unit prices of these goods have been as follows:

Table 24-3

Year	Apples	Bread	Robes	Gasoline
2002	\$1.00	\$2.00	\$10.00	\$1.00
2003	\$1.00	\$1.50	\$9.00	\$1.50
2004	\$2.00	\$2.00	\$11.00	\$2.00
2005	\$3.00	\$3.00	\$15.00	\$2.50

- _____ 15. **Refer to Table 24-3.** What was the inflation rate, as measured by the CPI, between 2003 and 2004?
- 28.5 percent
 - It is impossible to determine without knowing the base year.
 - 34.2 percent
 - 47 percent
 - None of the above is correct.

- ___ 16. A country repealed its investment tax credit. The effects of this are represented by shifting the
- demand for and the supply of loanable funds to the left.
 - demand for and the supply of loanable funds to the right.
 - supply of loanable funds to the right and the demand for loanable funds to the left.
 - None of the above are correct.
- ___ 17. Suppose that some people are counted as unemployed when, to maintain unemployment compensation, they search for work only at places where they are unlikely to be hired. If these individuals were counted as out of the labour force instead of as unemployed,
- the unemployment rate would be higher and the participation rate would be lower.
 - both the unemployment rate and labour-force participation rate would be higher.
 - both the unemployment rate and labour-force participation rate would be lower.
 - the unemployment rate would be lower and the labour-force participation rate would be higher.
- ___ 18. Tiffany is offered a job in Winnipeg that pays \$90,000. She is offered a similar job in Montreal for \$60,000. Which set of CPI's would make the two salaries have almost the same purchasing power?
- 90 in Winnipeg and 66 in Montreal
 - 90 in Winnipeg and 72 in Montreal
 - 90 in Winnipeg and 80 in Montreal
 - 60 in Winnipeg and 40 in Montreal
 - None of the above is correct

- ___ 19. Suppose the market for loanable funds is in equilibrium. Using the table below, determine the quantity of funds demanded.

GDP	\$100 billion
Consumption	\$65 billion
Taxes minus Transfers	\$15 billion
Government purchases	\$20 billion

- \$15 billion
 - \$25 billion
 - \$5 billion
 - \$10 billion
- ___ 20. You know that a candy bar cost five cents in 1962. You also know the CPI for 1962 and the CPI for today. Which of the following would you use to compute the price of the candy bar in today's prices?
- five cents \times (today's CPI/1962 CPI)
 - five cents \times today's CPI - five cents \times 1962 CPI.
 - five cents \times (1962 CPI/ today's CPI)
 - five cents \times (1962 CPI/(today's CPI - 1962 CPI))
- ___ 21. The price index is 180 in one year and 210 in the next. What was the inflation rate?
- 14.3 percent
 - 11.1 percent
 - 16.7 percent
 - None of the above are correct.

- _____ 22. The minimum wage
- creates structural unemployment. Firms paying wages above equilibrium to attract a better pool of candidates create frictional unemployment.
 - and firms paying wages above equilibrium to attract a better pool of candidates both create structural unemployment.
 - creates frictional unemployment. Firms paying wages above equilibrium to attract a better pool of candidates create structural unemployment.
 - and firms paying wages above equilibrium to attract a better pool of candidates both create frictional unemployment.
- _____ 23. Suppose the price of a quart 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 people will likely buy
- more milk and more T-shirts.
 - less milk and fewer T-shirts.
 - more milk and fewer T-shirts.
 - less milk and more T-shirts.
- _____ 24. If the nominal interest rate is 8 percent and rate of inflation is 2 percent, the real interest rate is
- 16 percent.
 - 6 percent.
 - 4 percent.
 - 10 percent.
- _____ 25. Flour is
- always counted as an intermediate good.
 - counted as an intermediate good if it is used by a company to make bread.
 - counted as a final good if it is used by a consumer who bakes bread for his own consumption.
 - Both b and c are correct.
 - Both a and b are correct.
- _____ 26. If the number of workers in an economy doubled, all other inputs stayed the same, and there were constant returns to scale, productivity would
- fall but by less than half.
 - stay the same.
 - rise but less than double.
 - fall to half its former value.
- _____ 27. Which of the following is a cause of frictional unemployment?
- the minimum wage
 - a worker leaving a job to find one with better benefits
 - labour unions
 - All of the above are correct.

Table 28-1. This table shows the 2007 data for males and females aged 15 and over in the country of Dan.

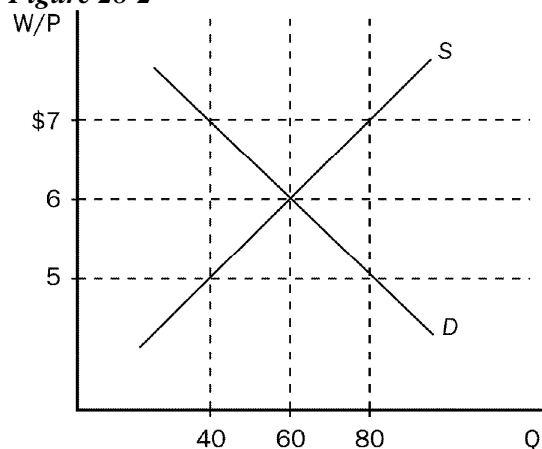
Not in the Labour Force		Unemployed		Employed	
<i>Male</i>	<i>Female</i>	<i>Male</i>	<i>Female</i>	<i>Male</i>	<i>Female</i>
45 million	35 million	5 million	5 million	85 million	65 million

- ___ 28. **Refer to Table 28-1.** What is the adult male labour-force participation rate in Dan?
- 7.40 percent
 - 33.33 percent
 - 37.03 percent
 - 66.67 percent
- ___ 29. **Refer to Table 28-1.** What is the adult unemployment rate in Dan?
- 4.12 percent
 - 6.25 percent
 - 11.11 percent
 - 12.50 percent
- ___ 30. The local Chevrolet dealership has an increase in inventory of 25 cars in 2005. In 2006 it sells all 25 cars.
- The value of the increased inventory will not affect 2005 GDP, but will be included in 2006 GDP.
 - The value of increased inventory will be counted as part of GDP in 2005, but the value of the cars sold in 2006 will not cause GDP to increase.
 - The value of the increased inventory will be counted as 2005 GDP and the value of the cars sold in 2006 will increase 2006 GDP.
 - None of the above are correct.
- ___ 31. Discouraged workers
- are counted as part of the adult population, but not as part of the labour force.
 - are not counted either as part of the adult population or as part of the labour force.
 - are counted as part of the adult population, and as unemployed.
 - None the above are correct.
- ___ 32. In 1972 in Kelowna, BC one could buy model rocket engines for \$1.50, if those same engines cost \$3.00 today what set of CPI's would make the engine prices in today's dollars the same for both years?
- 60 in 1972 and 130 today
 - 60 in 1972 and 100 today
 - 60 in 1972 and 120 today
 - 60 in 1972 and 110 today
- ___ 33. Ralph puts money in the bank and earns a 5 percent nominal interest rate, if the inflation rate is 3 percent,
- Ralph will have 3 percent more money which will purchase 8 percent more goods.
 - Ralph will have 5 percent more money which will purchase 8 percent more goods.
 - Ralph will have 3 percent more money which will purchase 2 percent more goods.
 - Ralph will have 5 percent more money which will purchase 2 percent more goods.
- ___ 34. The catch-up effect refers to the idea that
- it is easier for a country to grow fast if it starts out relatively poor.
 - if investment spending is low, increased saving will help investment to "catch-up."
 - saving will always "catch-up" with investment spending.
 - rich countries aid relatively poor countries so as to help them "catch up."

- _____ 35. Which of the following statements about GDP is most accurate?
- Nominal GDP values production at market prices, while real GDP values production at the cost of the resources used in the production process.
 - Nominal GDP values production at current prices, while real GDP values production at constant prices.
 - Nominal GDP consistently underestimates the value of production, while real GDP consistently overestimates the value of production.
 - Nominal GDP values production at constant prices, while real GDP values production at current prices.
- _____ 36. On a production function, as capital per worker increases, the traditional view of the production process argues that output per worker
- increases. This increase is the same at all values of capital per worker.
 - decreases. This decrease is smaller at larger values of capital per worker.
 - increases. This increase is smaller at larger values of capital per worker.
 - decreases. This decrease is larger at larger values of capital per worker.
- _____ 37. Which of the following is the most accurate statement about the relationship between the nominal interest rate and the real interest rate?
- The real interest rate is the nominal interest rate minus the rate of inflation.
 - The real interest rate is the nominal interest rate times the rate of inflation.
 - The real interest rate is the nominal interest rate divided by the rate of inflation.
 - The real interest rate is the nominal interest rate plus the rate of inflation.
- _____ 38. Which of the following identities shows that GDP is both total income and total expenditure?
- $Y = PI + DI + NX$
 - $GDP = Y$
 - $GDP = GNP - NX$
 - $Y = C + I + G + NX$
- _____ 39. If nominal GDP is \$10 trillion and real GDP is \$8 trillion, the GDP deflator is
- 0.8.
 - 125.
 - 80.
 - 1.25.

Use the graph below to answer the following questions.

Figure 28-2



- ___ 40. Refer to Figure 28-2. If the minimum wage is \$5, the number of people unemployed is
- 0 and if the minimum wage is \$6 it is 0.
 - 40 and if the minimum wage is \$6 it is 20.
 - 20 and if the minimum wage is \$6 it is 20.
 - 40 and if the minimum wage is \$6 it is 0.
- ___ 41. Which change in the price index shows the greatest rate of inflation: 100 to 110, 150 to 165, 180 to 198, or 220 to 242?
- All changes show the same rate of inflation.
 - 100 to 110
 - 220 to 242
 - 150 to 165
- ___ 42. A farmer produces the same output in 2007 as in 2006. His input prices increase by 50 percent, but so does his product price. We can conclude that
- the farmer is equally well off in 2007 as in 2006.
 - the farmer was better off in 2007.
 - the farmer is better off in 2007.
 - we cannot tell whether the farmer is better off in 2007 or in 2006 without additional information.
- ___ 43. Which of the following is correct?
- The value of intermediate goods are included in GDP only if they were produced in the previous year.
 - The value of intermediate goods are not included in GDP.
 - The value of intermediate goods are included in GDP only if they are purchased by firms rather than households.
 - The value of all intermediate goods and final goods are included in GDP.

- _____ 44. We would predict that the more generous unemployment compensation a country has,
- the shorter the duration of each spell of unemployment, and the lower the unemployment rate.
 - the longer the duration of each spell of unemployment, and the lower the unemployment rate.
 - the shorter the duration of each spell of unemployment, and the higher the unemployment rate.
 - the longer the duration of each spell of unemployment, and the higher the unemployment rate.
- _____ 45. The labor force participation rate is computed as the number of adults in the labour force
- divided by the number of unemployed times 100.
 - times the participation rate times 100
 - divided by the unemployment rate times 100.
 - divided by the adult population times 100.
 - None of the above are correct.
- _____ 46. A higher interest rate induces people to
- save less, so the supply of loanable funds slopes downward.
 - invest more, so the supply of loanable funds slopes upward.
 - invest less, so the supply of loanable funds slopes downward.
 - save more, so the supply of loanable funds slopes upward.
- _____ 47. If a country's saving rate increases, in the long run
- productivity is higher, real GDP per person is not higher.
 - real GDP per person is higher, productivity is not higher.
 - productivity and real GDP per person are both higher.
 - neither productivity nor real GDP per person are higher.
- _____ 48. If a Canadian citizen buys a television made in Korea by a Korean firm,
- Canadian net exports are unaffected, and Canadian GDP is unaffected.
 - Canadian net exports decrease but Canadian GDP is unaffected.
 - Canadian net exports decrease, and Canadian GDP decreases.
 - Canadian net exports are unaffected, and Canadian GDP decreases.
- _____ 49. In an economy consisting of only households and firms, GDP can be computed by
- adding up the total expenditures of households.
 - adding up the total income paid by firms.
 - Either a or b are correct.
 - None of the above are correct.
- _____ 50. If there are constant returns to scale, the production function can be written as
- $Y/L = A F(xL, xK, xH, xN)$.
 - $L = AF(Y, K, H, N)$.
 - $xY = 2xAF(L, K, H, N)$.
 - $Y/L = A F(1, K/L, H/L, N/L)$.

- _____ 51. 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?
- 10 percent
 - 7 percent
 - 16 percent
 - 13 percent
- _____ 52. If one wants to know how the material well-being of the average person has changed over time in a given country, one should look at
- the growth rate of nominal GDP per person.
 - the growth rate of real GDP per person.
 - the level of real GDP.
 - the growth rate of real GDP.
- _____ 53. Which statement represents most correctly the relationship between nominal GDP and real GDP?
- Nominal GDP measures current production using current prices, while real GDP measures base-year production using base-year prices.
 - Nominal GDP measures current production using base-year prices, while real GDP measures current production using current prices.
 - Nominal GDP measures current production using current prices, while real GDP measures current production using base-year prices.
 - Nominal GDP measures base-year production using base-year prices, while real GDP measures current production using current prices.

Use the table below to answer the following questions.

Table 24-1

year	peaches	pecans
2005	\$14 per bushel	\$9 per bushel
2006	\$12 per bushel	\$14 per bushel

- _____ 54. **Refer to Table 24-1.** Suppose that the typical consumer basket consists of 5 bushels of peaches and 10 bushels of pecans and that the base year is 2000. What is the consumer price index for 2006?
- 125
 - 100
 - 200
 - 80
 - None of the above
- _____ 55. Which of the following is the correct definition of GDP?
- the market value of all goods produced within a country
 - the market value of all final goods and services consumed within a country over a number of years.
 - the market value of all final goods and services produced by the citizens of a country
 - the market value of all final goods and services produced within a country in a given period of time.
 - None of the above are correct.

- _____ 56. Suppose that an apartment complex converts to a condominium where the renters are now owners of their former apartments. Suppose that an estimate of the value of the condominium owners' housing services is now the same as their former rent.
- GDP is unaffected because previously rent was included in GDP, and now it is replaced by the estimate of the value of housing services.
 - GDP necessarily decreases.
 - GDP necessarily increases.
 - GDP is unaffected because neither the rent nor the estimate of the value of housing services is included in GDP.
- _____ 57. An increase in the minimum wage would
- increase both the quantity demanded and the quantity supplied of labour.
 - decrease the quantity of labour demanded while increasing the quantity supplied.
 - decrease both the quantity demanded and the quantity supplied of labour.
 - have no effect on the labour market
- _____ 58. If a country reported a nominal GDP of 115 billion in 2007 and 125 billion in 2006 and reported a GDP deflator of 85 in 2007 and a deflator of 100 in 2006, then from 2006 to 2007 real output
- rose and prices fell.
 - and prices both fell.
 - and prices both rose.
 - fell and prices rose.
- _____ 59. In 1970 Professor Fellswoop made \$12,000, in 1980 he earned \$24,000, and in 1990 he earned \$36,000. If the CPI was 40 in 1970, 60 in 1980, and 100 in 1990, then in real terms, Professor Fellswoop's salary was highest in
- 1980, and lowest in 1970.
 - 1970, and lowest in 1980.
 - 1990, and lowest in 1980.
 - 1990, and lowest in 1970.
- _____ 60. By not taking into account the possibility of consumer substitution, the CPI
- may overstate or understate the cost of living depending on how much prices rise.
 - understates the cost of living.
 - overstates the cost of living.
 - doesn't accurately reflect the cost of living, but it is unclear if it overstates or understates the cost of living.

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Answer Section

MULTIPLE CHOICE

1. ANS: D	PTS: 1	DIF: Average	REF: 175-177
2. ANS: C	PTS: 1	DIF: Easy	REF: 172
3. ANS: D	PTS: 1	DIF: Challenging	REF: 100-101
4. ANS: A	PTS: 1	DIF: Average	REF: 175-177
5. ANS: A	PTS: 1	DIF: Challenging	REF: 172
6. ANS: D	PTS: 1	DIF: Challenging	REF: 131
7. ANS: C	PTS: 1	DIF: Average	REF: 197-199
8. ANS: C	PTS: 1	DIF: Average	REF: 107
9. ANS: B	PTS: 1	DIF: Easy	REF: 125-126
10. ANS: A	PTS: 1	DIF: Challenging	REF: 141
11. ANS: A	PTS: 1	DIF: Easy	REF: 207-209
12. ANS: A	PTS: 1	DIF: Easy	REF: 143
13. ANS: D	PTS: 1	DIF: Average	REF: 147-149
14. ANS: B	PTS: 1	DIF: Average	REF: 101
15. ANS: C	PTS: 1	DIF: Challenging	REF: 123-124
16. ANS: D	PTS: 1	DIF: Average	REF: 177-178
17. ANS: C	PTS: 1	DIF: Challenging	REF: 195
18. ANS: D	PTS: 1	DIF: Average	REF: 128
19. ANS: A	PTS: 1	DIF: Average	REF: 172-174
20. ANS: A	PTS: 1	DIF: Easy	REF: 128
21. ANS: C	PTS: 1	DIF: Average	REF: 124
22. ANS: B	PTS: 1	DIF: Average	REF: 203-205 207-209
23. ANS: B	PTS: 1	DIF: Average	REF: 125-126
24. ANS: B	PTS: 1	DIF: Easy	REF: 131
25. ANS: D	PTS: 1	DIF: Easy	REF: 101-102
26. ANS: A	PTS: 1	DIF: Challenging	REF: 145
27. ANS: B	PTS: 1	DIF: Easy	REF: 200
28. ANS: D	PTS: 1	DIF: Challenging	REF: p.192-194
BLM: Higher Order		NOT: MacroTB_9-49	
29. ANS: B	PTS: 1	DIF: Average	REF: p.192-194
BLM: Higher Order		NOT: MacroTB_9-40	
30. ANS: B	PTS: 1	DIF: Average	REF: 101
31. ANS: A	PTS: 1	DIF: Easy	REF: 195
32. ANS: C	PTS: 1	DIF: Average	REF: 128
33. ANS: D	PTS: 1	DIF: Average	REF: 131
34. ANS: A	PTS: 1	DIF: Easy	REF: 148
35. ANS: B	PTS: 1	DIF: Easy	REF: 106-107
36. ANS: C	PTS: 1	DIF: Average	REF: 148
37. ANS: A	PTS: 1	DIF: Easy	REF: 131

38.	ANS: D	PTS: 1	DIF: Easy	REF: p.173
	BLM: Higher Order		NOT: Macro TB_8-77	
39.	ANS: B	PTS: 1	DIF: Easy	REF: 108
40.	ANS: A	PTS: 1	DIF: Average	REF: 204
41.	ANS: A	PTS: 1	DIF: Average	REF: 124
42.	ANS: D	PTS: 1	DIF: Average	REF: 108
43.	ANS: B	PTS: 1	DIF: Easy	REF: 100-101
44.	ANS: D	PTS: 1	DIF: Easy	REF: 201-203
45.	ANS: D	PTS: 1	DIF: Average	REF: 191-192
46.	ANS: D	PTS: 1	DIF: Easy	REF: 174
47.	ANS: C	PTS: 1	DIF: Average	REF: 147-149
48.	ANS: B	PTS: 1	DIF: Average	REF: 104-105
49.	ANS: C	PTS: 1	DIF: Easy	REF: 99
50.	ANS: D	PTS: 1	DIF: Average	REF: 145
51.	ANS: B	PTS: 1	DIF: Challenging	REF: 141
52.	ANS: B	PTS: 1	DIF: Easy	REF: 140-141
53.	ANS: C	PTS: 1	DIF: Average	REF: 108
54.	ANS: A	PTS: 1	DIF: Average	REF: 123-124
55.	ANS: D	PTS: 1	DIF: Easy	REF: 100
56.	ANS: A	PTS: 1	DIF: Average	REF: 100-101
57.	ANS: B	PTS: 1	DIF: Average	REF: 203-205
58.	ANS: A	PTS: 1	DIF: Average	REF: 108
59.	ANS: A	PTS: 1	DIF: Average	REF: 128
60.	ANS: C	PTS: 1	DIF: Easy	REF: 125-126