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## **INTRODUCTION TO MACROECONOMICS (ECO 1102)**

### **Practice Exam #1**

### **Answers on last page**

**Coverage: Mankiw chapters 5, 6, 7, 8 and 9**

1. Macroeconomics includes the study of topics such as
  - a. national output, the inflation rate, and the trade deficit.
  - b. the price of Cisco stock, wage differences between genders, and antitrust laws.
  - c. differences in market structure, and how consumers maximize utility.
  - d. None of the above is correct.
2. Which of the following statistics is the best single measure of an economy's well-being?
  - a. the unemployment rate
  - b. the inflation rate
  - c. GDP per capita
  - d. the trade deficit
3. If GDP rises,
  - a. income and expenditure must both rise.
  - b. income and expenditure must both fall.
  - c. income must rise, but expenditure may rise or fall.
  - d. expenditure must rise, but income may rise or fall.
4. In a simple circular-flow diagram, total income and total expenditures in an economy are
  - a. equal because firms are ultimately owned by households.
  - b. equal only if there is no saving.
  - c. never equal because some people's income is not for production.
  - d. equal because every transaction has a buyer and a seller.
  - e. none of the above is true
5. Which of the following is the correct definition of GDP?

- a. the market value of all goods produced within a country
  - b. the market value of all final goods and services produced by the citizens of a country
  - c. the market value of all final goods and services consumed within a country over a number of years.
  - d. the market value of all final goods and services produced within a country in a given period of time.
  - e. None of the above is correct.
6. Which of the following is excluded from 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
7. Roommates Grace and Kelly are sharing household chores and think they have an even exchange. Other things being the same, if they paid each other for the chores the other did, GDP would
- a. fall.
  - b. rise.
  - c. be unaffected because paid or not, household chores are not included in GDP.
  - d. be unaffected because paid or not, household chores are included in GDP.
8. The CPI is a measure of the overall cost of
- a. inputs purchased by a typical producer.
  - b. goods and services bought by a typical consumer.
  - c. goods and services produced in the economy.
  - d. stocks on the New York Stock Exchange.
9. Which goods are supposed to be included in the CPI?
- a. all goods and services produced in the economy
  - b. all goods and services that consumers typically buy
  - c. all goods and services in the consumption component of the GDP accounts
  - d. all the goods, but not the services, in the consumption component of the GDP accounts
10. The steps involved in calculating the consumer price index include, in order:
- a. choose a base year, determine the basket, compute the inflation rate, compute the basket's cost, and compute the inflation rate.
  - b. choose a base year, find the prices, determine the basket, compute the basket's cost, and compute the inflation rate.
  - c. determine the basket, find the prices, compute the basket's cost, choose a base year and compute the inflation rate.
  - d. determine the basket, find the prices, compute the inflation rate, choose a base year and compute the inflation rate.

**Use this Table to answer questions 11 and 12.**

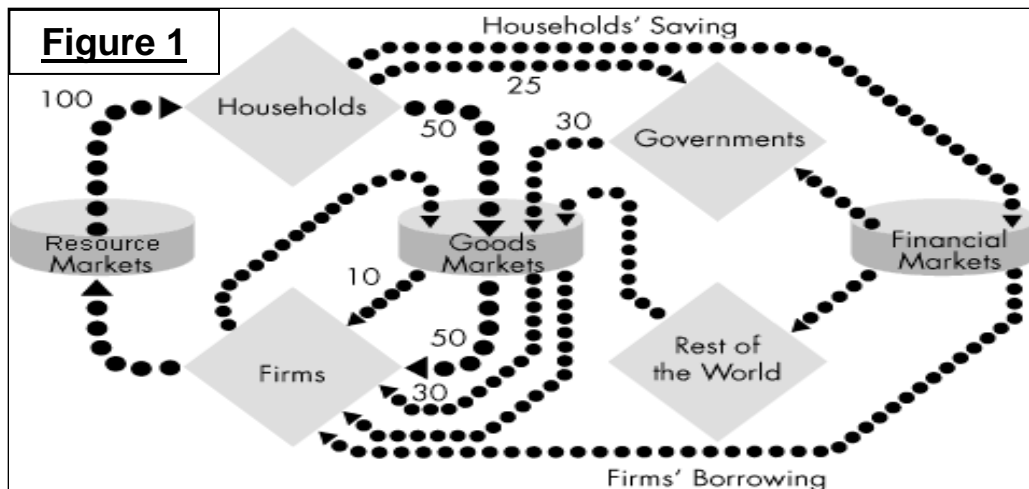
<u>Year</u>	<u>Peaches (5)</u>	<u>Pecans (10)</u>
<b>2005</b>	<b>\$14 per bushel</b>	<b>\$9 per bushel</b>
<b>2006</b>	<b>\$12 per bushel</b>	<b>\$14 per bushel</b>

11. Suppose that the typical consumer basket consists of 5 bushels of peaches and 10 bushels of pecans and that the base year is 2005. What is the consumer price index for 2005?
  - a. 100
  - b. 160
  - c. 200
  - d. There is insufficient information to answer this question.
  
12. Suppose that the typical consumer basket consists of 5 bushels of peaches and 10 bushels of pecans and that the base year is 2005. What is the consumer price index for 2006?
  - a. 80
  - b. 100
  - c. 125
  - d. 200
  - e. None of the above is correct.
  
13. For any given year, the CPI is the cost of the basket of goods and services in the
  - a. given year divided by the price of the basket in the base year, then multiplied by 100.
  - b. given year divided by the price of the basket in the previous year, then multiplied by 100.
  - c. base year divided by the price of the basket in the given year, then multiplied by 100.
  - d. previous year divided by the price of the basket in the given year, then multiplied by 100.
  
14. If the price index in the first year was 90, in the second year was 100, and in the third year was 95, the economy experienced
  - a. 10 percent inflation between the first and second years and 5 percent inflation between the second and third years.
  - b. 10 percent inflation between the first and second years and 5 percent deflation between the second and third years.
  - c. 11 percent inflation between the first and second years and 5 percent inflation between the second and third years.
  - d. 11 percent inflation between the first and second years and 5 percent deflation between the second and third years.
  - e. None of the above is correct.
  
15. 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.
  
16. Which of the following is a correct way to measure productivity?
  - a. divide the number of hours worked by output
  - b. divide output by the number of hours worked
  - c. compute output growth
  - d. divide the change in output by the change in number of hours worked

17. Laurie works eight hours and produces 7 units of goods per hour. Iris works six hours and produces 10 units of goods per hour.
- Laurie's productivity and output are greater than Iris'.
  - Laurie's productivity is greater than Iris' but his output is less.
  - Iris' productivity and output are greater than Laurie's.
  - Iris' productivity is greater than Laurie's but her output is less.
18. The equipment and structures available to produce goods and services are called
- physical capital.
  - human capital.
  - the production function.
  - technology.
19. Which of the following is human capital?
- breakfasts served in a company's cafeteria
  - understanding how to use a company's accounting software
  - training videos for new corporate employees
  - All of the above are correct.
20. Which of the following best states economists' understanding of the facts concerning the relationship between natural resources and economic growth?
- A country with no or few domestic natural resources is destined to be poor.
  - Differences in natural resources have virtually no role in explaining differences in standards of living.
  - Some countries can be rich mostly because of their natural resources and countries without natural resources need not be poor, but can never have very high standards of living.
  - Abundant domestic natural resources may help make a country rich, but even countries with few natural resources can have high standards of living.
  - None of the above is correct.
21. The relationship between the quantity of output created and the quantity of inputs needed to create it is called
- the capital accumulation function.
  - technological knowledge.
  - the production function.
  - human capital.
  - the proprietary function.
22. Which of the following is NOT a nonsensical headline?
- British perpetuities about to mature.
  - Disney issues new bonds with a term of \$1,000 each.
  - Government bonds currently pay less interest than corporate bonds.
  - Standard and Poor's judges new junk bond to have very low credit risk.
23. Which of the following equations will always represent GDP in an open economy?
- $S = I - G$
  - $I = Y - C + G$
  - $Y = C + I + G$

- d.  $Y = C + I + G + NX$
24. Which of the following equations most simply represents GDP in a closed economy?
- $Y = C + I + G + NX$
  - $S = I - G$
  - $I = Y - C + G$
  - $Y = C + I + G$
25. In a closed economy, what does  $(T - G)$  represent?
- national saving
  - Investment
  - private saving
  - public saving
  - None of the above is correct.
26. In a closed economy, what does  $(Y - T - C)$  represent?
- national saving
  - Government tax revenue
  - public saving
  - private saving
27. Suppose that in a closed economy  $GDP = 15,000$ ,  $taxes = 2,500$ ,  $consumption = 7,500$ , and  $government\ expenditures = 3,000$ . 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.
28. The country of Omega does not trade with any other country. Its GDP is \$20 billion. Its government purchases \$3 billion worth of goods and services each year, collects \$3 billion in taxes, and provides \$2 billion in transfer payments to households. Private saving in Square is \$4 billion. What is Omega's investment?
- \$4 billion
  - \$3 billion
  - \$2 billion
  - There is not enough information to answer the question.
29. Which of the following is incorrect?
- The unemployment rate is computed using the number of unemployment insurance claims filed.
  - Each adult included in the unemployment statistics is classified as employed, unemployed, or not in the labour force.
  - Unemployment numbers include people aged sixteen and older.
  - Statistics Canada gathers data on unemployment and employment.
30. Who of the following would be counted as unemployed according to official statistics?
- Shasta, who is currently not working and is waiting for her new job to start
  - Mary, who worked only 35 hours last week
  - Karen, who neither has a job nor is looking for one

- d. None of the above would be counted as unemployed.
31. Statistics Canada defines the unemployment rate as the percentage of
- those unemployed relative to the percentage employed.
  - labour force that is unemployed.
  - adult population that is unemployed.
  - labour force without fulltime employment.
  - None of the above are correct.
32. Which of the following definitions is correct?
- Labor force = number of employed.
  - Labor force = population – number of unemployed.
  - Unemployment Rate = (number of unemployed ÷ [number of employed + number of unemployed]) x 100.
  - Unemployment Rate = (number of unemployed ÷ adult population) x 100.
  - None of the above is correct.
33. The labor 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.
34. Rick loses his job and immediately begins looking for another. *Ceteris paribus*, the unemployment rate
- increases, and the labour-force participation rate decreases.
  - increases, and the labour-force participation rate is unaffected.
  - is unaffected, and the labour-force participation rate increases.
  - decreases, and the labour-force participation rate is unaffected.
35. Between 2006 and 2007, the country of Dove reported an increase in the number of people who were employed. It also reported an increase in the unemployment rate. Which of the following would best explain the two reports?
- There was an increase in the size of the labour force between 2001 and 2002.
  - There was a decrease in the size of the labour force between 2001 and 2002.
  - There was an increase in the size of the adult population between 2001 and 2002.
  - The two reports are contradictory and can't be reconciled.



36. What is GDP in **Figure 1**?
  - a. 50.
  - b. 75.
  - c. 100.
  - d. 90.
  - e. Cannot be calculated from the information given.
  
37. What is the size of the government deficit or surplus in **Figure 1**?
  - a. A surplus of 25.
  - b. 0.
  - c. A deficit of 30.
  - d. A surplus of 5.
  - e. A deficit of 5.
  
38. What is household saving in **Figure 1**?
  - a. 10. b. 25. c. 75. d. 100. e. Cannot be calculated from the information given.
  
39. What is aggregate income in **Figure 1**?
  - a. 75. b. 90. c. 100. d. 25. e. 50.
  
40. What is aggregate expenditure in **Figure 1**?
  - a. 50.
  - b. 90.
  - c. 75.
  - d. 100.
  - e. Not calculable with the information given.
  
41. If real wages rise, money wages
  - a. rise more rapidly than the price level.
  - b. rise more slowly than the price level.
  - c. and the price level are changing by the same amount.
  - d. are falling and the price level is constant.

- e. are constant and the price level is rising.
42. Which of the following is incorrect?
- Higher gross investment may increase the stock of capital.
  - Capital is plant, equipment, and inventories of raw materials and semi-finished goods that are used to produce other goods and services.
  - Positive depreciation decreases the stock of capital.
  - Higher gross investment increases the stock of capital.
  - Positive net investment increases the stock of capital.

**Table 2**

**Questions 43 to 47**

**A simple economy produces three goods only.  
Prices and quantities produced are shown below.**

**I**

	Price (\$)		Quantity	
	<u>1975</u>	<u>1985</u>	<u>1975</u>	<u>1985</u>
<b>Pop</b>	<b>0.75</b>	<b>1.10</b>	<b>100</b>	<b>120</b>
<b>Crackers</b>	<b>1.25</b>	<b>2.10</b>	<b>300</b>	<b>280</b>
<b>Cucumbers</b>	<b>2.00</b>	<b>3.00</b>	<b>200</b>	<b>190</b>

43. The price index in 1985, using 1985 as the base year, is  
a. 100. b. 157. c. 153. d. 129. e. 63.
44. The price index in 1985, using 1975 as the base year, is  
a. 63. b. 152. c. 157. d. 100. e. 1,340.
45. Given that the base year is 1975, which one of the following statements is true?  
a. The relative price of pop in terms of cucumbers has risen.  
b. From 1975 to 1985, the cost of the market basket has risen by 57 percent.  
c. It costs 158 times more in 1985 than it does in 1975 to buy the same market basket.  
d. All prices have risen by the same amount.  
e. The relative price of pop in terms of crackers has risen.
46. The price index in 1975, using 1985 as the base year, is  
a. 157. b. 152. c. 129. d. 63. e. 100.
47. The price index in 1975, using 1975 as the base year, is  
a. 63. b. 158. c. 1,340. d. 152. e. 100.
48. In a country with a working-age population of 20 million, 13 million are employed, 1.5 million are unemployed, and 1 million of the employed are working part-time, half of whom wish to work full-time. The size of the involuntary part-time rate is

- a. 5 percent.
  - b. 7.5 percent.
  - c. 12.5 percent.
  - d. 2.5 percent.
  - e. None of the above is correct.
49. Intermediate goods can be defined as goods that are
- a. used in the production of other goods and services.
  - b. sold to their ultimate user.
  - c. included directly in the measure of GDP.
  - d. always the same as capital goods.
  - e. purchased this year but consumed in future years.
50. If the working-age population increases, then the
- a. unemployment rate will increase.
  - b. number of people employed will increase.
  - c. size of the labour force will increase.
  - d. total number of people aged 15 years and above will increase.
  - e. labour force participation rate will increase.

0-0-0-0

<u>Question #</u>	<u>Answer</u>	<u>Question #</u>	<u>Answer</u>	<u>Question #</u>	<u>Answer</u>
1.	A	31.	B		
2.	C	32.	C		
3.	A	33.	A		
4.	D	34.	B		
5.	D	35.	A		
6.	E	36.	C		
7.	B	37.	E		
8.	B	38.	B		
9.	B	39.	C		
10.	C	40.	D		
11.	A	41.	A		
12.	C	42.	D		
13.	A	43.	A		
14.	D	44.	C		
15.	C	45.	B		
16.	B	46.	D		
17.	C	47.	E		
18.	A	48. (=3.45%)	E		
19.	B	49.	A		
20.	D	50.	D		
21.	C	51.			
22.	C	52.			
23.	D	53.			
24.	D	54.			
25.	D	55.			
26.	D	56.			
27.	B	57.			
28.	C	58.			
29.	A	59.			
30.	A	60.			