

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

- 1) Money is differentiated from other assets due to 1) _____
A) its invulnerability to inflation.
B) its value as a medium of exchange.
C) its value as a unit of account.
D) its value of facilitating government spending.
E) its value as smoothing out business cycles.
- 2) The structure of a macroeconomic model involves 2) _____
A) the incomes of consumers.
B) the behaviour of government.
C) the behaviour of consumers and firms.
D) the goods and services demanded by government.
E) the available technology.
- 3) The business cycle component of the log of real per capita GDP is equal to 3) _____
A) log of trend per capita GDP – log of actual real per capita GDP.
B) log of trend GDP divided by log of actual real GDP.
C) log of actual real per capita GDP – log of trend per capita GDP.
D) log of trend GDP – log of actual real GDP.
E) log of actual real GDP divided by log of trend GDP.
- 4) What is produced and consumed in the economy is determined jointly by 4) _____
A) the economy's productive capacity and the preferences of consumers.
B) government policies and the economy's productive capacity.
C) the preferences of consumers and the behaviour of business managers.
D) standards of living and business cycles.
E) the behaviour of business managers and government policies.
- 5) Over the course of the 20th century, the typical Canadian 5) _____
A) became twice as rich.
B) remained equally as rich.
C) became almost five-times as rich.
D) remained as rich as the typical American.
E) became ten-times as rich.
- 6) The Canadian government budget was 6) _____
A) was in deficit for most of the period from 1959 to 1970, but was in surplus for most of the period from 1970 to the late 1990s.
B) continuously is surplus from 1961 to the mid 1970s, but was in deficit from 1975 until the late 1990s.
C) continuously in deficit from 1961 to the mid 1980s and has been in surplus ever since.
D) continuously in surplus from 1961 to 2002.
E) continuously in deficit from 1961 to the mid 1970s and in surplus from 1975 to 2002.

- 7) A productivity slowdown was observed from the _____
A) early 1950s to the late 1960s.
B) early 1960s to the early 1970s.
C) late 1960s to the early 1980s.
D) mid-1980s to the late 1990s.
E) early 1970s to the early 1980s.
- 8) Two plausible hypothesis to explain the productivity slowdown are _____
A) large government budget deficits and large balance of trade deficits.
B) globalization of capital markets and reductions in tariffs.
C) high interest rates and slower economic growth.
D) measurement problems and adjustments to new technologies.
E) adjustments to new technologies and failures in the educational system.
- 9) Government surplus is the same as _____
A) government saving.
B) outlays less income.
C) government deficit less government saving.
D) private saving.
E) government deficit less government saving.
- 10) The largest deviation in real per capita GDP from trend GDP occurred _____
A) in the 1990s.
B) during the post World War II period.
C) during the Great Depression and World War II.
D) in the 1980s.
E) during World War II.
- 11) Business cycles in macroeconomics are _____
A) the increase in a nation's productive capacity over a long period of time.
B) short-run ups and downs in aggregate economic activity.
C) the economic interrelationships among nations.
D) changes in the average standard of living over time.
E) profits and losses of firms.
- 12) Primarily, macroeconomists use microeconomic principles to study _____
A) short run and long run economic growth.
B) business cycles and trends in the stock market.
C) trends in the stock market and long-term economic growth.
D) long-run economic growth and business cycles.
E) long-run economic growth and employment policies.
- 13) For the study of economic growth, it is most helpful to examine movements in _____; for the study of business cycles, it is most helpful to examine movements in _____.
A) trend income; deviation from trend in income
B) deviations from trend in GDP; trend GDP
C) deviations from trend in GDP; deviations from trend in GDP
D) trend GDP; deviations from trend in GDP
E) trend GDP; trend GDP

- 14) In economic models, the economy must 14) _____
A) have government surpluses.
B) be where prices that consumers pay are lower than what sellers are offering.
C) have low inflation.
D) be in a situation where all resources are used.
E) be in competitive equilibrium.
- 15) In the second half of the 20th century, the Canadian inflation rate was at its highest in the period 15) _____
from
A) 1656 to the early 1970s.
B) 1960 to the early 1970s.
C) the mid-1970s to the early 1980s.
D) the mid-1980s to the early 1990s.
E) 1990 to 2002.
- 16) Persistent current account deficits make sense if 16) _____
A) if the associated foreign borrowing is used to finance increased productive capacity.
B) if the government budgetary debt is not growing.
C) if personal income taxes are reduced.
D) the capital account surplus is reduced.
E) government interest rates go down accordingly.
- 17) The idea that government budget deficits do not matter under certain circumstances is 17) _____
A) attributed to Edward Prescott and Finn Kydland.
B) called the Ricardian equivalence theorem.
C) called the Milton Friedman theory.
D) preposterous.
E) called the Friedman-Lucas theory.
- 18) According to Keynesian coordination failure theory, the primary causes of business cycles are 18) _____
A) fiscal shocks.
B) monetary factors.
C) waves of self-fulfilling optimism and pessimism.
D) shocks to aggregate demand.
E) technology shocks.
- 19) When a country has a current account balance deficit, the country 19) _____
A) is always lending abroad.
B) always has a large government budget surplus.
C) always has a large government budget deficit.
D) is always borrowing from abroad.
E) is always borrowing from domestic residents.
- 20) A sharp increase in energy prices most plausibly accounts for the 20) _____
A) Great Depression.
B) recession in 1973-1975.
C) Korean War inflation.
D) recessions in the early 2000s.
E) recessions of the early 1980s.

- 21) The macroeconomic model that is most supportive of the role of government policy aimed at smoothing business cycles is the 21) _____
A) Keynesian sticky wage model.
B) real business cycle model.
C) Keynesian coordination failure model.
D) Solow growth model.
E) money surprise model.
- 22) When there is high inflation 22) _____
A) the nominal interest rate is approximately equal to the real interest rate.
B) the real interest rate is always greater than the nominal interest rate.
C) the nominal interest rate is always greater than the real interest rate.
D) interest rates fall due to government policy.
E) the real interest rate is always negative.
- 23) Canada has had a current account surplus since 23) _____
A) the late 1960s.
B) 1961–2005.
C) the late 1980s.
D) the late 1990s.
E) 2002.
- 24) Increases in energy prices do not have as strong a negative impact in 24) _____
A) the U.S. as in other countries.
B) Canada as in the U.S.
C) in Japan as in Canada.
D) in Japan as in the U.S.
E) the U.S. as in Canada.
- 25) Business cycles are 25) _____
A) similar, but they can have many causes.
B) similar, and all are created from external forces.
C) each unique, and they can have many causes.
D) similar, and they all have a single cause.
E) each unique, but all have a single cause.
- 26) Real interest rates were negative during most of the 26) _____
A) 1960s. B) 1970s. C) 1980s. D) 1990s. E) 2000s.
- 27) One important influence on the current account surplus is 27) _____
A) government spending.
B) interest rates.
C) productive capacity.
D) standards of living.
E) taxes.

- 28) The two key business cycle events in Canadian economic history were 28) _____
- A) World War II and the Great Depression.
 - B) the Great Depression and government budget deficits.
 - C) the Great Depression and stagflation.
 - D) government budget deficits and World War II.
 - E) the productivity slowdown and the Great Depression.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 29) What is the difference between nominal and real interest rates and why do economists deem them both to be important economic indicators?

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

- 30) A trade-off between aggregate output and inflation 30) _____
- A) is part of the Keynesian sticky wage model.
 - B) is theoretically possible, but has never been observed in practice.
 - C) may exist in the short run, but not in the long run.
 - D) may exist in the long run, but not in the short run.
 - E) exists in both the short run and the long run.
- 31) Which of the following topics is a primary concern of macro economists? 31) _____
- A) choices of individual consumers and firms
 - B) short-run growth models
 - C) fluctuations in the level of aggregate economic activity
 - D) relative wages of skilled and unskilled workers
 - E) standards of living of individuals
- 32) Gross Domestic Product is 32) _____
- A) the quantity of goods and services produced within a country's borders during some specified period of time.
 - B) the quantity of goods produced within a country's borders during some specific period of time.
 - C) the aggregate quantity of income earned by consumers who have jobs during some specified period of time.
 - D) the quantity of goods produced by Canadian residents domestically and abroad during some specific period of time.
 - E) the quantity of goods and services produced by Canadian residents domestically and abroad during some specific period of time.
- 33) Two important theories of unemployment are 33) _____
- A) search theory and the efficiency wage theory.
 - B) the efficiency wage theory and the quantity theory.
 - C) game theory and search theory.
 - D) the quantity theory and game theory.
 - E) Keynesian sticky wage theory and the Phillips curve theory.

- 34) When a country has a current account balance surplus, the country 34) _____
A) is always borrowing from domestic residents.
B) is always lending abroad.
C) is always borrowing from abroad.
D) always has a large government budget deficit.
E) always has a large government budget surplus.
- 35) To be useful, macroeconomic models 35) _____
A) must be complete, accurate descriptions of the world.
B) must be simple.
C) must be extremely realistic.
D) never generates testable hypothesis.
E) provides a lot of intricate details.
- 36) In the long run, inflation is caused by 36) _____
A) global warming.
B) greedy monopolists.
C) aggressive labour unions.
D) growth in the money supply.
E) the tradeoff between aggregate output and inflation.
- 37) Macroeconomists use models 37) _____
A) to provide accurate descriptions of the world.
B) to explain long-run economic growth.
C) that explain government deficit and debt.
D) to explain international trade.
E) to explain everything that occurs in the world.
- 38) One consequence of government deficits is 38) _____
A) lower interest rates.
B) reduced government borrowing.
C) redistribution of the tax burden from one group to another.
D) reduced consumer spending.
E) lower taxes.
- 39) Twin deficits refer to 39) _____
A) government deficits and capital account deficits.
B) the impact of crowding out on short run and long run government deficits.
C) short and long run government deficits.
D) current and capital account deficits.
E) current account deficits and government deficits.
- 40) Improvements in a country's standard of living are brought about in the long run by 40) _____
A) immigration policy.
B) growth in the population.
C) technological progress.
D) constructing more machines and buildings.
E) taxes.

- 41) According to the *Lucas critique*, changes in economic policy are likely to have important effects on _____ 41) _____
- A) government.
 - B) international trade.
 - C) the preferences of consumers.
 - D) microeconomic behaviour.
 - E) the available amounts of natural resources.
- 42) The real interest rate is _____ 42) _____
- A) equal to the nominal rate of interest minus the rate of inflation.
 - B) equal to the rate of inflation minus the nominal rate of interest.
 - C) the market interest rate.
 - D) always equal to the pure rate of time preference.
 - E) less important for decision making than the nominal rate of interest.
- 43) What explains the trends in nominal interest rates? _____ 43) _____
- A) wages
 - B) aggregate economic activity
 - C) standards of living
 - D) inflation rates
 - E) consumer incomes
- 44) The fact that the unemployment rate has intended to decrease since the mid-1980s is primarily explained by _____ 44) _____
- A) changes in the level of economic activity.
 - B) changes in government intervention.
 - C) the working age population getting older.
 - D) structural shifts.
 - E) changes in the structure of the population.
- 45) Which of the following observations is true about the unemployment rate in Canada? _____ 45) _____
- A) since 1980, the unemployment rate rose until the mid-1990s and has declined thereafter
 - B) the unemployment rate in the period after 1990 is higher than the unemployment rate in the period before 1990
 - C) the unemployment rate in 2000 is slower than in the 1950s
 - D) the unemployment rate fluctuates significantly
 - E) since 1970, the unemployment rate is higher than in the 2000s
- 46) Year-to-year fluctuations in the unemployment rate are primarily explained by _____ 46) _____
- A) changes in the level of economic activity.
 - B) structural shifts.
 - C) standards of living.
 - D) changes in the structure of the population.
 - E) changes in government intervention.

- 47) The relationship between the level of growth of an economic variable, g_t and its level, y_t is best approximated as 47) _____
- A) $g_t = \frac{y_t}{y_{t-1}}$.
- B) $g_t = \log y_t - \log y_{t-1}$.
- C) $y_t = \log g_t - \log g_{t-1}$.
- D) $g_t = \log y_t + \log y_{t-1}$.
- E) $\log g_t = y_t - y_{t-1}$.
- 48) According to real business cycle theory, the primary causes of business cycles are 48) _____
- A) technology shocks.
- B) fiscal shocks.
- C) monetary factors.
- D) shocks to aggregate demand.
- E) waves of self-fulfilling optimism and pessimism.
- 49) The development most responsible for the wide-spread introduction of macroeconomic models built upon solid microeconomic foundations was the 49) _____
- A) rational expectation revolution.
- B) development of the Keynesian coordination failure model.
- C) the work of Milton Friedman.
- D) popularization of the Solow growth model.
- E) work of John Maynard Keynes.
- 50) Keynesians argue that the government 50) _____
- A) should be concerned with monetary policy.
- B) should be concerned with sticky wages.
- C) can influence trend growth, but not business cycle.
- D) can and should play an active role in smoothing out business cycles.
- E) is ineffective at smoothing out business cycles.
- 51) Countries gain from 51) _____
- A) inflation.
- B) trading goods and assets with each other.
- C) productivity slowdown.
- D) taxes.
- E) long-run tradeoffs between aggregate output and inflation.
- 52) According to money surprise theory, the primary causes of business cycles are 52) _____
- A) shocks to aggregate demand.
- B) waves of self-fulfilling optimism and pessimism.
- C) technology shocks.
- D) monetary factors.
- E) fiscal shocks.

53) Sometimes it is useful to separate economic movements into

- A) short run growth from income movements.
- B) long run growth from business cycle fluctuations.
- C) short run growth from business cycle fluctuations.
- D) long run growth from income movements.
- E) employment growth from business cycle fluctuations.

53) _____

Answer Key

Testname: UNTITLED3

- 1) B
Page Ref: P. 13
- 2) E
Page Ref: P. 8
- 3) C
Page Ref: P. 6
- 4) A
Page Ref: P. 12
- 5) C
Page Ref: P. 3
- 6) B
Page Ref: P. 17
- 7) E
Page Ref: P. 14
- 8) D
Page Ref: P. 15
- 9) A
Page Ref: P. 16
- 10) C
Page Ref: P. 7
- 11) B
Page Ref: P. 3
- 12) D
Page Ref: P. 2
- 13) D
Page Ref: P. 6
- 14) E
Page Ref: P. 9
- 15) C
Page Ref: P. 18
- 16) A
Page Ref: P. 25
- 17) B
Page Ref: P. 18
- 18) C
Page Ref: P. 11
- 19) D
Page Ref: P. 24
- 20) B
Page Ref: P. 22
- 21) C
Page Ref: P. 11
- 22) C
Page Ref: P. 20
- 23) D
Page Ref: P. 24

Answer Key

Testname: UNTITLED3

24) B

Page Ref: P. 23

25) A

Page Ref: P. 13

26) B

Page Ref: P. 21

27) A

Page Ref: P. 25

28) A

Page Ref: P. 3

29) Nominal interest rates are the market or posted interest rates. For example, the interest rate on 3-month federal government Treasury bills. Nominal interest rates are influenced by the real interest rate and the expected rate of inflation. Therefore, the real interest rate is the nominal interest rates minus the expected rate of inflation. The real, or inflation-adjusted interest rate is important because it measures the actual cost of borrowing in the absence of inflation. Real interest rates are affected by monetary policy. The high real interest rates in the 1980s are often attributed to tight monetary policy.

Page Ref: P. 19-22

30) C

Page Ref: P. 14

31) C

Page Ref: P. 2

32) A

Page Ref: P. 3

33) A

Page Ref: P. 13

34) B

Page Ref: P. 24

35) B

Page Ref: P. 8

36) D

Page Ref: P. 13

37) B

Page Ref: P. 8

38) C

Page Ref: P. 17

39) E

Page Ref: P. 25

40) C

Page Ref: P. 12

41) D

Page Ref: P.10

42) A

Page Ref: P. 20

43) D

Page Ref: P. 20

44) E

Page Ref: P. 27

Answer Key

Testname: UNTITLED3

45) D

Page Ref: P. 26

46) A

Page Ref: P. 26

47) B

Page Ref: P. 5

48) A

Page Ref: P.11

49) A

Page Ref: P. 10

50) D

Page Ref: P. 11

51) B

Page Ref: P. 13

52) D

Page Ref: P. 11

53) B

Page Ref: P. 6