

Ryerson University
Department of Economics
ECN204-011: Introductory Macroeconomics
Practice Midterm Test - Winter 2014
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Family Name _____

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Instructions: You have **120** minutes to answer the following **60** questions.
MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1. Real gross domestic product
 - A. is a measure of inflation
 - B. will increase if there is an increase in the price level
 - C. will increase if there is an increase in the level of output
 - D. can change from one year to the next even if there is no change in output

2. Suppose that real GDP increases by 5% while the population of a country increases by 7%. Then
 - A. output per person necessarily increases
 - B. output per person necessarily decreases
 - C. output per person necessarily remains unchanged
 - D. there is not enough information to determine what happens to output per person

3. Which of the following is the best example of financial investment?
 - A. Ford Motor Co. builds a new manufacturing plant
 - B. A student pursues an MBA degree
 - C. A retiree purchases Google stock
 - D. A young couple purchases a new home

4. In economics, the word “shocks” refers to
 - A. situations where firms’ expectations are unmet
 - B. any changes in the demand for goods and services
 - C. any changes in the supply of goods and services
 - D. a decrease in real GDP

5. Higher oil prices are most likely to lead to
 - A. a negative demand shock
 - B. a positive demand shock
 - C. a negative supply shock
 - D. a positive supply shock

6. The business cycle depicts:
 - A. fluctuations in the general price level.
 - B. the phases a business goes through from when it first opens to when it finally closes.
 - C. the evolution of technology over time.
 - D. short-run fluctuations in output and employment.

7. Which of the following statements is most accurate about advanced economies?
 - A. Economies experience a positive growth trend over the short run, but experience significant variability in the long run.
 - B. Economies experience a positive growth trend over the long run, but experience significant variability in the short run.
 - C. Economies experience positive and stable growth over both the long run and short run.
 - D. Economies experience little long-run growth in output, but can experience significant growth in the short run.

8. Before the period of modern economic growth:
- A. only civilizations such as the Roman Empire experienced economic growth.
 - B. rates of population growth virtually matched rates of output growth.
 - C. most economies realized high rates of growth in output per person.
 - D. output and population growth were stagnant.
9. What is the difference between financial investment and economic investment?
- A. There is no difference between the two.
 - B. Financial investment refers to the purchase of financial assets only; economic investment refers to the purchase of any new or used capital goods.
 - C. Economic investment is adjusted for inflation; financial investment is not.
 - D. Financial investment refers to the purchase of assets for financial gain; economic investment refers to the purchase of newly created capital goods.
10. If an economy wants to increase its current level of investment, it must:
- A. sacrifice future consumption.
 - B. print more money.
 - C. offer more stocks and bonds to financial investors.
 - D. sacrifice current consumption.
11. Suppose the total monetary value of all final goods and services *produced* in a particular country in 2008 is \$500 billion and the total monetary value of final goods and services *sold* is \$450 billion. We can conclude that:
- A. GDP in 2008 is \$450 billion.
 - B. GDP in 2008 is \$500 billion.
 - C. GDP in 2008 is \$500 billion.
 - D. inventories in 2008 fell by \$50 billion.

12. If depreciation (consumption of fixed capital) exceeds domestic investment, we can conclude that:
- A. nominal GDP is rising but real GDP is declining.
 - B. net investment is negative.
 - C. the economy is importing more than it exports.
 - D. the economy's production capacity is expanding.
13. Real GDP measures:
- A. current output at current prices.
 - B. current output at base year prices.
 - C. base year output at current prices.
 - D. base year output at current exchange rates.
14. Real GDP and nominal GDP differ because the real GDP:
- A. is adjusted for changes in the volume of intermediate transactions.
 - B. includes the economic effects of international trade.
 - C. has been adjusted for changes in the price level.
 - D. excludes depreciation charges.
15. The GDP tends to:
- A. overstate economic welfare because it does not include certain nonmarket activities such as the productive work of housewives.
 - B. understate economic welfare because it includes expenditures undertaken to offset or correct pollution.
 - C. understate economic welfare because it does not take into account increases in leisure.
 - D. overstate economic welfare because it does not reflect improvements in product quality.
16. The monetary value of all final goods and services produced by the Canadian economy during a year is:
- A. NDP
 - B. GDP
 - C. PI
 - D. DI
17. Which would be considered an investment according to economists?
- A. The purchase of newly-issued shares of stock in Microsoft
 - B. The construction of a new computer chip factory by Intel
 - C. The purchase of shares of stock by Fidelity, a mutual fund company
 - D. The sale of government bonds by the nation's central bank

18. The following are national income account data for a hypothetical economy in billions of dollars: gross private domestic investment (\$320); imports (\$35); exports (\$22); personal consumption expenditures (\$2,460); and, government purchases (\$470). What is GDP in this economy?
- A. \$3,250 billion
 - B. \$3,263 billion
 - C. \$3,237 billion
 - D. \$3,290 billion
19. GDP in an economy is \$4,600 billion. Consumer expenditures are \$3,500 billion, government purchases are \$900 billion, and gross private domestic investment is \$400 billion. Net exports are:
- A. +\$400 billion
 - B. -\$400 billion
 - C. +\$200 billion
 - D. -\$200 billion
20. A consumer price index attempts to measure changes in:
- A. The prices of all goods and services produced by the Canadian economy
 - B. The price of a select market basket of goods and services
 - C. The spending patterns of all consumers in Canada
 - D. The spending patterns of consumers worldwide
21. Which is a demand factor in economic growth?
- A. More human and natural resources
 - B. Technological progress and innovation
 - C. An increase in the economy's stock of capital goods
 - D. An increase in total spending in the economy
22. The entry of women into the workforce since the 1960s resulted in:
- A. A shift outward in the production possibilities curve of Canada
 - B. A shift inward in the production possibilities curve in of Canada
 - C. A movement along the existing production possibilities curve in Canada
 - D. A falling real wage for women workers of Canada
23. A decline in a nation's rate of productivity growth will:
- A. Reduce the inflation rate
 - B. Increase education and training
 - C. Slow the growth of the standard of living
 - D. Make industry more competitive in world markets

24. If the annual growth in a nation's productivity is 2.5 percent rather than 1.5 percent, then the nation's standard of living will double in about:
- A. 20 years
 - B. 28 years
 - C. 46 years
 - D. 56 years
25. Which is best considered a supply factor for long-run economic growth?
- A. Government spending
 - B. The stock of capital goods
 - C. Full employment of resources
 - D. Personal consumption expenditures
26. Real GDP per capita:
- A. cannot grow more rapidly than real GDP.
 - B. cannot grow more slowly than real GDP.
 - C. necessarily grows more rapidly than real GDP.
 - D. can grow either more slowly or more rapidly than real GDP.
27. Growth is advantageous to a nation because it:
- A. promotes faster population growth.
 - B. lessens the burden of scarcity.
 - C. eliminates the economizing problem.
 - D. slows the growth of wants.
28. In a country with a working-age population of 22 million, 16 million are employed, 2 million are unemployed, and 1 million of the employed are working part-time, half of whom wish to work full-time. The unemployment rate is:
- A. 10.3%.
 - B. 15.4%.
 - C. 11.1%.
 - D. 10%.
29. The natural rate of unemployment is
- A. the same as the cyclical unemployment rate
 - B. the rate at which cyclical unemployment is equal to 6%
 - C. equal to 0 percent
 - D. the rate at which cyclical unemployment is equal to 0 percent.

30. Critics of economic growth:
- A. contend that growth and industrialization reduce pollution.
 - B. argue that economic growth does not resolve socioeconomic problems such as an unequal distribution of income and wealth.
 - C. point out that growth results in greater economic security for workers.
 - D. say that its benefits accrue nearly exclusively to white males.
31. A nation has a population of 30 million people. Of these, 8 million are retired, in the military, in institutions, or under 15 years old. There are 21 million who are employed and 1 million who are unemployed. What is the unemployment rate?
- A. 3.3 percent
 - B. 3.6 percent
 - C. 4.5 percent
 - D. 5.2 percent
32. The rate of unemployment when the economy is at its potential output is called the:
- A. Full-employment rate of unemployment
 - B. Natural rate of unemployment
 - C. Structural rate of unemployment
 - D. Frictional rate of unemployment
33. Kevin has lost his job in an automobile plant because of the use of robots for welding on the assembly line. Kevin plans to go to technical school to learn how to repair microcomputers. The type of unemployment Kevin is faced with is:
- A. Cyclical
 - B. Frictional
 - C. Structural
 - D. Natural
34. If the annual inflation rate is 5 percent a year, about how many years will it take for the price level to double?
- A. 10 years
 - B. 12 years
 - C. 14 years
 - D. 16 years

35. The industries or sectors of the economy in which business cycle fluctuations tend to affect output the most are:
- A. military goods and capital goods.
 - B. services and nondurable consumer goods.
 - C. clothing and education.
 - D. capital goods and durable consumer goods.
36. In which phase of the business cycle will the economy most likely experience rising real output and falling unemployment rates?
- A. Expansion
 - B. Recession
 - C. Peak
 - D. Trough
37. A college or university graduate using the summer following graduation to search for a job would best be classified as:
- A. not officially a member of the labor force.
 - B. a part of structural unemployment.
 - C. a part of cyclical unemployment.
 - D. a part of frictional unemployment.
38. If actual GDP is \$340 billion and there is a positive GDP gap of \$20 billion, potential GDP is:
- A. \$360 billion.
 - B. \$660 billion.
 - C. \$320 billion.
 - D. \$20 billion.
39. In which of the following cases would real income rise?
- A. Nominal income rises by 8 percent, and the price level rises by 10 percent.
 - B. Nominal income rises by 2 percent, and the price level remains unchanged.
 - C. Nominal income falls by 4 percent, and the price level fall by 4 percent.
 - D. Real income will rise in all of the above cases.
40. The size of the MPC is assumed to be:
- A. less than zero.
 - B. greater than one.
 - C. greater than zero, but less than one.
 - D. two or more.

41. Suppose that a new machine tool having a useful life of only one year costs \$80,000. Suppose, also, that the net additional revenue resulting from buying this tool is expected to be \$96,000. The expected rate of return on this tool is:
- A. 80 percent.
 - B. 8 percent.
 - C. 2 percent.
 - D. 20 percent.
42. If business taxes are reduced and the real interest rate increases:
- A. consumption and saving will necessarily increase.
 - B. the level of investment spending might either increase or decrease.
 - C. the level of investment spending will necessarily increase.
 - D. the level of investment spending will necessarily decrease.
43. The multiplier effect means that:
- A. consumption is typically several times as large as saving.
 - B. a change in consumption can cause a larger increase in investment.
 - C. an increase in investment can cause GDP to change by a larger amount.
 - D. a decline in the MPC can cause GDP to rise by several times that amount.
44. As disposable income decreases, consumption:
- A. And saving both increase
 - B. And saving both decrease
 - C. Increases and saving decreases
 - D. Decreases and saving increases
45. If the consumption schedule shifts downward, and the shift was not caused by a tax change, then the saving schedule:
- A. May shift either upward or downward
 - B. Will shift downward
 - C. Will shift upward
 - D. Will not shift
46. Which would shift the consumption schedule upward?
- A. A decrease in wealth
 - B. An increase in wealth
 - C. Consumer expectations of falling prices
 - D. Consumer expectations of product surpluses

47. An inverse relationship between the rate of interest and the level of:
- A. Income is suggested by the consumption function
 - B. Prices is suggested by the aggregate supply curve
 - C. Employment is suggested by the aggregate demand curve
 - D. Investment spending is suggested by the investment-demand curve
48. Which would decrease investment demand?
- A. A decrease in business taxes
 - B. An increase in the cost of acquiring capital goods
 - C. An increase in the rate of technological change
 - D. A decrease in the stock of capital goods on hand
49. Generally speaking, the greater the MPS, the:
- A. Smaller would be the increase in income which results from an increase in consumption spending
 - B. Larger would be the increase in income which results from an increase in consumption spending
 - C. Larger would be the increase in income which results from a decrease in consumption spending
 - D. Smaller would be the increase in income which results from a decrease in consumption spending
50. A private closed economy includes:
- A. households, businesses, and government, but not international trade.
 - B. households, businesses, and international trade, but not government.
 - C. households and businesses, but not government or international trade.
 - D. households only.
51. The equilibrium level of GDP in a private closed economy is where:
- A. $MPC = APC$.
 - B. unemployment is about 3 percent of the labor force.
 - C. consumption equals saving.
 - D. aggregate expenditures equal GDP.
52. The equilibrium level of GDP is associated with:
- A. an excess of planned investment over saving.
 - B. no unintended changes in inventories.
 - C. an unintended decrease in business inventories.
 - D. an unintended increase in business inventories.

53. Suppose that the level of GDP increased by \$100 billion in a private closed economy where the marginal propensity to consume is 0.5. Aggregate expenditures must have increased by:
- A. \$100 billion.
 - B. \$50 billion.
 - C. \$500 billion.
 - D. \$5 billion.
54. If a \$10 billion decrease in lump-sum taxes increases equilibrium GDP by \$40 billion then:
- A. the multiplier is 4.
 - B. the MPC for this economy is .8.
 - C. the MPC for this economy is .6.
 - D. the multiplier is 3.
55. An increase in the investment demand curve will:
- A. Shift the investment schedule downward
 - B. Shift the investment schedule upward
 - C. Decrease the quantity of investment
 - D. Decrease the real rate of interest
56. Saving and investment are, respectively:
- A. An injection and a leakage
 - B. A leakage and an injection
 - C. Wealth and income
 - D. Income and wealth
57. If GDP exceeds aggregate expenditures:
- A. Saving will exceed planned investment
 - B. Planned investment will exceed saving
 - C. Planned investment will exceed actual investment
 - D. Injections will exceed leakages
58. Over time, an increase in the real output and incomes of Canada's trading partners will:
- A. Increase Canadian U.S. exports and Canadian imports
 - B. Decrease Canadian exports and Canadian imports
 - C. Increase Canadian exports and decrease Canadian imports
 - D. Decrease Canadian exports and increase Canadian imports

59. The amount by which an aggregate expenditures schedule must shift downward to eliminate demand-pull inflation and still achieve the full-employment GDP is a(n):
- A. Inflationary expenditure gap
 - B. Recessionary expenditure gap
 - C. Depreciation rate
 - D. Price-level change
60. Which one of the following is *false*?
- A. $Y + M = C + I + G + X$
 - B. $X - M = Y - C - I - G$
 - C. $Y = C + I + G + M - X$
 - D. $Y - C - I - G - X + M = 0$