

PASS MOCK EXAM – *FOR PRACTICE ONLY*

Course: ECON 1000 D

Facilitator: Richard Coffin

Dates and locations of mock exam take-up: **Feb. 07 (2:00pm - 4:00pm in LE 118)**

IMPORTANT:

It is **most beneficial** to you to write this mock midterm **UNDER EXAM CONDITIONS**. This means:

- Complete the midterm in 1.5 hour(s).
- Work on your own.
- Keep your notes and textbook closed.
- Attempt every question.

After the time limit, go back over your work with a different colour or on a separate piece of paper and try to do the questions you are unsure of. Record your ideas in the margins to remind yourself of what you were thinking when you take it up at PASS.

The purpose of this mock exam is to give you practice answering questions in a timed setting and to help you to gauge which aspects of the course content you know well and which are in need of further development and review. Use this mock exam as a ***learning tool*** in preparing for the actual exam.

Please note:

- Come to the PASS session with your mock exam complete. There, you can work with other students to review your work.
- Often, there is not enough time to review the entire exam in the PASS session. Decide which questions you most want to review – the Facilitator may ask students to vote on which questions they want to discuss.
- Facilitators do not bring copies of the mock exam to the session. Please print out and complete the exam before you attend.
- **Facilitators do not produce or distribute an answer key for mock exams.** Facilitators help students to work together to compare and assess the answers they have. If you are not able to attend the PASS session, you can work alone or with others in the class.

Good Luck writing the Mock Midterm!!

DISCLAIMER: PASS handouts are designed as a study aid only for use in PASS workshops. Handouts may contain errors, intentional or otherwise. It is up to the student to verify the information contained within.

PLEASE NOTE: THIS HANDOUT IS NOT TO BE DISTRIBUTED.

PART A: Multiple Choice (50 marks – 2 marks per question)

PART A: Multiple Choice

1. Macroeconomists studies
 - a. The decisions of individual households and firms
 - b. The interaction between households and firms
 - c. Economy-wide phenomena
 - d. Regulations imposed on firms and unions
2. Which of the following is NOT a macroeconomics-related headline?
 - a. Unemployment rate rises from 5% to 5.5%
 - b. Real GDP grows by 3.1% in the third quarter
 - c. Retail sales at stores show large gains
 - d. The Chinese orange industry continues to rise
3. Gross domestic product measures
 - a. Income and expenditures
 - b. Income but not expenditures
 - c. Expenditures but not income
 - d. Income less expenditures
4. Which of the following principles does the Circular Flow Diagram exemplify?
 - a. The number of firms is equal to the number of households in an economy
 - b. Goods are continuously transferred between households and firms
 - c. Every dollar of spending by some buyer is a dollar of income for some seller. Hence, income = expenditure
 - d. Every dollar of saving by some consumer is a dollar of spending by some other consumer
5. GDP is defined as the
 - a. Value of all goods and services produced within a country in a given period of time
 - b. Value of all goods and services produced by the citizens of a country, regardless of where they are living, in a given period of time
 - c. Value of all final goods and services produced within a country in a given period of time
 - d. Value of all final goods and services produced by the citizens of a country, regardless of where they are living, in a given period of time
6. In the CPI, goods and services are weighted according to
 - a. How long a market has existed for each good or service
 - b. The extent to which each good or service is regarded by the government as a necessity
 - c. How much consumers buy of each good or service
 - d. The number of firms that produce and sell each good or service
7. Between October 2001 and October 2002, the CPI in Canada rose from 116.5 to 119.8 and the CPI in Mexico rose from 93.2 to 102.3. What were the inflation rates for Canada and Mexico over this one-year period?
 - a. 2.8 percent for Canada and 9.1 percent for Mexico
 - b. 2.8 percent for Canada and 9.8 percent for Mexico
 - c. 3.3 percent for Canada and 9.1 percent for Mexico
 - d. 3.3 percent for Canada and 9.8 percent for Mexico

The table below pertains to Pieway, an economy in which the typical consumer's basket consists of 10 bushels of peaches and 15 bushels of pecans.

Year	Price of Peaches	Price of Pecans
2005	\$11 per bushel	\$6 per bushel
2006	\$9 per bushel	\$10 per bushel

8. If 2005 is the base year, then the CPI for 2006 was
- 83.3
 - 100
 - 120
 - 240
9. If 2006 is the base year, then the CPI for 2005 was
- 83.3
 - 100
 - 120
 - 200
10. If 2005 is the base year, then the inflation rate in 2006 was
- 16.7%
 - 20%
 - 40%
 - 44.1%
11. Assume that Oreos are part of the CPI basket. If the price of Chips Ahoy falls below the price of Oreos, and if Chips Ahoy is considered a close substitute, which of the following occurs?
- CPI overestimates the cost of living
 - CPI underestimates the cost of living
 - CPI does not account for the variety of selection consumers have
 - Nothing significant happens
12. Which of the following would cause the CPI to rise more than the GDP deflator?
- An increase in the price of tanks purchased by the military
 - An increase in the price of domestically produced telecommunications equipment sold exclusively to the United State
 - An increase in the price of Hondas produced in Japan and sold in Canada
 - An increase in the price of agricultural machinery
13. Many factors determine productivity. If $Y = A f(L,K,H,N)$ and we assume a constant returns to scale production function f , then productivity per person equals
- $A f(1, K/L, H/L, N/L)$
 - $A/L f(1, K/L, H/L, N/L)$
 - $A f(K, H, N)$
 - $f(A/L, K/L, H/L, N/L)$
14. Which of the following best describes the "Catch-Up Effect"
- It is nearly impossible for rich countries to become relatively poorer.
 - If two countries receive the same level of investment, developed countries will face lower returns than underdeveloped countries.
 - Underdeveloped countries are likely to have a higher standard of living than developed countries.
 - Developed countries will eventually receive negative returns from investments.
15. Our standard of living is most closely related to
- How hard we work
 - Our supply of capital, because everything of value is produced by machinery
 - Our supply of natural resources, because they limit production
 - Our productivity, because our income is equal to what we produce
16. To increase growth, governments should do all of the following except
- Promote free trade
 - Encourage saving and investment
 - Encourage research and development
 - Reduce property rights
17. Which of the following is an example of foreign portfolio investment?
- A Canadian citizen buys stock in Rogers and Rogers uses the proceeds to buy new equipment
 - Honda builds a new plant in Ontario
 - A U.S. pension fund buys stock in Air Canada, and Air Canada uses the proceeds to buy new airplanes

- d. Royal Bank builds a new corporate office building
 - e. None of the above
18. If an unemployed person quits looking for work, all other things held equal,
- a. the unemployment rate decreases
 - b. the unemployment rate increase
 - c. the size of the labor force falls
 - d. both a and c are correct
19. Jane just lost her job, and she hasn't yet started looking for a new one. Statistics Canada counts Jane as
- a. Unemployed and in the labour force
 - b. Unemployed and not in the labour force
 - c. In the labour force, but not unemployed
 - d. Neither in the labour force nor unemployed
20. Which of the following is a cause of structural unemployment?
- a. A worker leaves a job to find another with a better job satisfaction rating.
 - b. Minimum wage laws.
 - c. Labour Unions.
 - d. Both b. and c.
21. Private Savings can be written as:
- a. $T-G$
 - b. $Y = C+I+G+NX$
 - c. $Y-C-T$
 - d. $S = I$
22. Suppose the nominal interest rate is 3% while the money supply is growing at a rate of 2% per year. If the government increases the growth rate of the money supply from 2% to 3%, the Fisher effect suggests that, in the long run,
- a. The nominal interest rate will be unchanged other things equal
 - b. The real interest rate will become 3% other things equal
 - c. The nominal interest rate will become 5% other things equal
 - d. The nominal interest rate will become 4% other things equal
23. If the reserve ratio is 2%, the value of the money multiplier is
- a. 2
 - b. 4
 - c. 10
 - d. 25
 - e. None of the above
24. A reduction in a government deficit can lead to:
- a. The savings curve shifting right and perhaps to a virtuous circle situation
 - b. The savings curve shifting left and perhaps to a vicious circle situation
 - c. The investment curve shifting right and perhaps to a virtuous circle situation
 - d. The investment curve shifting left and perhaps to a vicious circle situation
25. In the long run, inflation
- a. Is caused by banks that have market power and refuse to lend money
 - b. Is caused by governments that raise taxes so high that it increases the cost for firms and, hence, raises prices
 - c. Is determined by the government's rate of increase of the money supply
 - d. Increases initially and then drops to zero.
26. The inflation rate
- a. is a measure of the cost of a basket of goods and services bought by firms
 - b. is the absolute change in prices between years
 - c. is the percentage change in the price index from the preceding period
 - d. measures changes in the cost of living from one year to the next

27. If money is neutral
- An increase in the money supply does nothing
 - The money supply cannot be changed because it is tied to a commodity such as gold
 - A change in the money supply only affects nominal variables such as prices and dollar wages
 - A change in the money supply reduces velocity proportionality; therefore, there is no effect on either prices or real output
28. According to the quantity equation, if the money supply is growing at a rate of 2% per year and velocity is constant, it must be true that in the long run
- Real output never grows
 - The price level grows at a rate of 2% if real output is assumed to be constant
 - Nominal GDP grows at a rate higher than 2%
 - Real output grows at a rate between 1% and 2% and inflation is 2% per year.
29. Sophia puts money in the bank and earns a 5 percent nominal interest rate. If the inflation rate is 2 percent, then after one year,
- Sophia will have 3% more money, which will purchase 5% more goods
 - Sophia will have 3% more money, which will purchase 7% more goods
 - Sophia will have 5% more money, which will purchase 3% more goods
 - Sophia will have 7% more money, which will purchase 7% more goods
30. Which of the following policy actions by the Bank of Canada would likely increase the money supply?
- Raising the reserve requirements
 - Selling government bonds
 - Decreasing the overnight rate
 - All of these will increase the money supply

PART B: Short Answer

1. Consider a small island country that only produces three goods: popcorn, paperback novels, and running shoes. The following table shows the quantity produced for each of the goods in the years 2000 and 2001. The prices in each of the two years are also included.

Goods	Quantity Produced		Price	
	2000	2001	2000	2001
Popcorn	200	250	\$1	\$2
Paperback novels	50	30	\$20	\$25
Running shoes	8	10	\$100	\$80

- a. Define GDP.
- b. Calculate nominal GDP for 2000 and 2001.
- c. Calculate real GDP in 2001 using 2000 as a base year.
- d. Calculate the GDP deflator for 2001, using 2000 as a base year
2. Use the table to answer the following questions. The table shows the prices and the quantities of typical goods consumed in a given country. The base year is 2002.

Year	Price of Bread	Quantity of Bread	Price of Milk	Quantity of Milk
2002	\$2.00	100	\$1.00	100
2003	\$2.50	90	\$0.90	120
2004	\$2.75	105	\$1.00	130

- a. What is the value of the basket in the base year?
- b. What are the values of the CPI in 2002, 2003 and 2004?
- c. What is the inflation rate for 2003?
- d. What is the inflation rate for 2004?
- e. The CPI is not a perfect measure of the cost of living, what are some of the problems associated with the CPI?

3. Suppose the economy contains 2000 \$1 bills.
- a. If people hold all money as currency, what is the quantity of money? If people hold all money as demand deposits and banks maintain 100% reserves, what is the quantity of money? If people hold equal amounts of currency and demand deposits and banks maintain 100% reserves, what is the quantity of money?
 - b. If people hold all money as demand deposits and banks maintain a reserve ratio of 10%, what is the quantity of money? If people hold equal amounts of currency and demand deposits and banks maintain a reserve ratio of 10%, what is the quantity of money?
 - c. Using diagrams and explanations, starting from an initial point of equilibrium, what effect will the following government policies have on the market for Loanable Funds?
 - i. An increase in the HST by the government, a consumption tax
 - ii. A tax credit for starting small businesses
 - iii. A budget surplus from high levels of growth in the economy.