

Instructions: Please fill in your name and student number on every page of the exam questionnaire and on the NCS sheet. Use the NCS sheet to answer the Multiple Choice questions. This exam has 9 pages—check that this copy has all of them. Good luck!

Multiple-Choice Questions (80 points—2 points per question)

Identify the letter of the choice that best completes the statement or answers the question.

1. Which of the following is correct for an economy?
 - a. Income is greater than expenditure.
 - b. Expenditure is greater than income.
 - c. Income always equals expenditure.
 - d. Income equals expenditure only when saving is zero.

2. If Susan decides to change the oil in her car herself instead of having Speedy Lube change the oil for her GDP
 - a. necessarily rises.
 - b. necessarily falls.
 - c. will be unaffected because the same service is produced in either case.
 - d. will be unaffected because car maintenance is not included in GDP.

3. The local Chevrolet dealership has an increase in inventory of 25 cars in 2005. In 2006 it sells all 25 cars.
 - a. 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.
 - b. The value of the increased inventory will not affect 2005 GDP, but will be included in 2006 GDP.
 - c. 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.
 - d. None of the above are correct.

4. A Canadian company opens a pasta company in Verona, Italy. The profits from this pasta company are included in
 - a. both Canadian and Italian GNP.
 - b. both Canadian and Italian GDP.
 - c. Canadian GNP and Italian GDP.
 - d. Canadian GDP and Italian GNP.

5. A Canadian publisher purchases new computers. This purchase by itself makes
 - a. investment and GDP higher.
 - b. investment higher and leaves GDP unchanged.
 - c. investment higher and reduces GDP.
 - d. neither investment nor GDP higher.

6. If a Canadian household buys a \$75 handbag in Italy, Canadian consumption increases by \$75, Canadian
 - a. imports increase by \$75, and Canadian GDP increases by \$75.
 - b. imports increase by \$75, but Canadian GDP is unaffected.
 - c. imports are unaffected, and Canadian GDP is unaffected.
 - d. exports increase by \$75, and Canadian GDP increases by \$75.

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7. After the terrorist attack on September 11, governments raised expenditures to increase security at airports. These purchases of goods and services are
 - a. not included in GDP since they are not productive.
 - b. not included in GDP since the government will have to raise taxes to pay for them.
 - c. included in GDP since government expenditures are included in GDP.
 - d. included in GDP only to the extent that the Federal, and not state or local governments, paid for them.

 8. Unemployment compensation is
 - a. part of GDP because it represents income.
 - b. not part of GDP because it is a transfer payment.
 - c. part of GDP because the recipients must have worked in the past to qualify.
 - d. not part of GDP because the payments reduce business profits.

Table 1:

Year	Price of Burgers	Quantity of Burgers	Price of Magazines	Quantity of Magazines
2006	\$4.00	100	\$2.00	180
2007	\$5.00	120	\$2.50	200
2008	\$6.00	150	\$3.50	200

9. **Refer to Table 1.** Nominal GDP is
 - a. \$680 for 2006, \$880 for 2007, and \$1,200 for 2008
 - b. \$760 for 2006, \$880 for 2007, and \$1,000 for 2008
 - c. \$760 for 2006, \$1,100 for 2007, and \$1,600 for 2008
 - d. \$960 for 2006, \$1,280 for 2007, and \$1,300 for 2008
 - e. None of the above is correct.

10. When the consumer price index rises, the typical family
 - a. has to spend more dollars to maintain the same standard of living.
 - b. can spend fewer dollars to maintain the same standard of living.
 - c. finds that its standard of living is not affected.
 - d. can offset the effects of rising prices by saving more.

11. 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 typical consumers 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

12. How are the weights on the various goods and services in the CPI basket determined?
 - a. All goods and services are weighted equally.
 - b. A survey is conducted to determine how much of each good and service typical consumers purchase.
 - c. the weights equal the ratio of expenditures on each good or service divided by the total consumption expenditures in the GDP accounts.
 - d. Each good and service is weighted according to its price.

Table 2:

year	price of pork	price of corn
2003	\$20	\$20
2004	\$20	\$30

13. **Refer to Table 2.** Suppose that the basket of goods in the CPI consisted of 3 units of pork and 2 units of corn. What is the inflation rate for 2004?
- a. 33.3 percent
 - b. 25 percent
 - c. 20 percent
 - d. 15 percent
14. When the quality of a good deteriorates the purchasing power of the dollar
- a. increases, so the CPI overstates the change in the cost of living if the quality change is not accounted for.
 - b. increases, so the CPI understates the change in the cost of living if the quality change is not accounted for.
 - c. decreases, so the CPI overstates the change in the cost of living if the quality change is not accounted for.
 - d. decreases, so the CPI understates the change in the cost of living if the quality change is not accounted for.
15. An increase in the price of domestically produced industrial robots will be reflected in
- a. both the GDP deflator and the consumer price index.
 - b. neither the GDP deflator nor the consumer price index.
 - c. the GDP deflator but not in the consumer price index.
 - d. the consumer price index but not in the GDP deflator.
16. In Canada, if the price of imported oil rises so that the price of gasoline and heating oil rise the
- a. GDP deflator rises much more than does the consumer price index.
 - b. consumer price index rises much more than does the GDP deflator.
 - c. GDP deflator and the consumer price index rise by about the same amount.
 - d. consumer price index rises slightly more than does the GDP deflator.

Scenario 1

Grant Smith was a doctor in 1944 and made about \$12,000 a year. His daughter Lisa Smith also is a doctor and last year she made about \$175,000 in 2001. The price index in 1950 was 17.6 and the price index was 177 in 2001.

17. **Refer to Scenario 1.** What is Lisa's income in 1945 dollars?
- a. \$15,667
 - b. \$17,401
 - c. \$19,322
 - d. None of the above are correct.

18. Welfare payments are indexed for inflation using the CPI. A recent newspaper editorial claimed that welfare recipients are harmed by years of low inflation because they do not receive as large an increase in their payments as they do in years of high inflation. Which of the following statements is correct?
- The newspaper editorial is correct under all circumstances.
 - The newspaper editorial is correct if the market basket consumed by welfare recipients is the same as the market basket used to compute the CPI.
 - The newspaper editorial is correct if the prices of the goods consumed by welfare recipients increase faster than the prices of the goods in the market basket used to compute the CPI.
 - The newspaper editorial is correct if the prices of the goods consumed by welfare recipients increase slower than the prices of the goods in the market basket used to compute the CPI.
19. Suppose that the real interest rate was 3 percent and the inflation rate was 1 percent. Assume no tax.
- The dollar value of savings increased at 2 percent, and the value of savings measured in goods increased at 3 percent.
 - The dollar value of savings increased at 1 percent, and the value of savings measured in goods increased at 2 percent.
 - The dollar value of savings increased at 3 percent, and the value of savings measured in goods increased at 1 percent.
 - The dollar value of savings increased at 4 percent, and the value of savings measured in goods increased at 3 percent.
20. Ms. Smith borrowed \$1000 from her bank for one year at an interest rate of 10 percent per year. During that year the price level went up by 15 percent. Which of the following statements is correct?
- Ms. Smith will repay the bank fewer dollars than she initially borrowed.
 - Ms. Smith's repayment will give the bank less purchasing power than it originally loaned her.
 - Ms. Smith's repayment will give the bank greater purchasing power than it originally loaned her.
 - Ms. Smith's repayment will give the bank the same purchasing power that it originally loaned her.
21. Which of the following is correct?
- Productivity is hours worked divided by output produced.
 - Canadians have a higher standard of living than Indonesians because Canadian workers are more productive than Indonesian workers.
 - Changes in the market prices of most resources indicate that they are becoming increasingly scarce.
 - All of the above are correct.
22. 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.

23. Which of the following is a determinant of productivity?
- human capital
 - physical capital
 - natural resources
 - technological knowledge
 - All of the above are correct.
24. Suppose that over the last ten years productivity grew faster in Oceania than in Freedonia and the population of both countries was unchanged.
- It follows that real GDP per person must be higher in Oceania than in Freedonia.
 - It follows that real GDP per person grew faster in Oceania than in Freedonia.
 - It follows that the standard of living must be higher in Oceania than in Freedonia.
 - All of the above are correct.
25. Across countries, investment and growth rates are
- negatively related.
 - positively related.
 - negatively related for rich countries, but positively related for poor countries.
 - positively related for rich countries, but negatively related for poor countries.
26. In the long run, a higher saving rate
- cannot increase the capital stock.
 - means that people must consume less in the future.
 - increases productivity.
 - None of the above are correct.
27. The logic behind the catch-up effect is that
- workers in countries with low incomes will work more hours than workers in countries with high incomes.
 - the capital stock in rich countries deteriorates at a higher rate because it already has a lot of capital.
 - new capital adds more to production in a country that doesn't have much capital than in a country that already has much capital.
 - None of the above are correct.
28. Foreign saving is used for domestic investment when foreigners engage in
- foreign direct investment.
 - foreign portfolio investment.
 - Either a or b are correct.
 - Neither a nor b are correct.
29. When a country saves a larger portion of its GDP, it will have
- less investment, and so have more capital and higher productivity.
 - less investment, and so have less capital and higher productivity.
 - more investment, and so have more capital and higher productivity.
 - more investment, and so have less capital and higher productivity.

University of Ottawa

ECO1102 B

Midterm # 1 (October 20, 2009)

Name _____

Student number _____

30. The dictator of Turan has recently begun to arbitrarily seize farms belonging to his political opponents, and he has given the farms to his friends. His friends don't know much about farming. The courts in Turan have ruled that the seizures are illegal, but the dictator has ignored the rulings. Other things equal, we would expect that the growth rate in Turan will
- fall temporarily, but will return to where it was when the new owners learn how to farm.
 - increase because the total amount of human capital in the country will increase as the new owners learn how to farm.
 - fall and remain lower for a long time.
 - not be affected unless widespread civil disorder or civil war results.
31. Economists differ in their views of the role of the government in promoting economic growth. According to the text, at the very least, the government should
- lend support to the invisible hand by maintaining property rights and political stability.
 - limit foreign investment to industries that don't already exist.
 - impose trade restrictions to protect the interests of domestic producers and consumers.
 - subsidize key industries.
32. Other things the same, as the maturity of a bond becomes longer, the bond will pay
- less interest because it has less risk.
 - less interest because it has more risk.
 - more interest because it has more risk
 - There is no relation between term to maturity and risk.
33. People who buy stock in a corporation such as General Electric become
- creditors of General Electric, so the benefits of holding the stock depend on General Electric's profits.
 - creditors of General Electric, but the benefits of holding the stock do not depend on General Electric's profits.
 - part owners of General Electric, so the benefits of holding the stock depend on General Electric's profits.
 - part owners of General Electric, but the benefits of holding the stock do not depend on General Electric's profits.
34. Other things being constant, when a business issues more stock, the
- supply of the stock is greater and thus the price will fall.
 - supply of the stock is less and thus the price will rise.
 - demand for the stock is greater and thus the price will rise.
 - demand for the stock is less and thus the price will fall.
35. If there is surplus of loanable funds, then
- the supply for loanable funds shifts right and the demand shifts left.
 - the supply for loanable funds shifts left and the demand shifts right.
 - neither curve shifts, but the quantity of loanable funds supplied increases and the quantity demanded decreases as the interest rate rises to equilibrium.
 - neither curve shifts, but the quantity of loanable funds supplied decreases and the quantity demanded increases as the interest rate falls to equilibrium.

36. The Eye of Horus incense company has \$10 million in cash which it has accumulated from retained earnings. It was planning to use the money to build a new factory. Recently, the rate of interest has increased. The increase in the rate of interest should
- not influence the decision to build the factory because The Eye of Horus doesn't have to borrow any money.
 - not influence the decision to build the factory because its stockholders are expecting a new factory.
 - make it more likely that The Eye of Horus will build the factory because a higher interest rate will make the factory more valuable.
 - make it less likely that The Eye of Horus will build the factory because the opportunity cost of the \$10 million is now higher.

37. 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

- \$25 billion
 - \$20 billion
 - \$15 billion
 - \$10 billion
 - \$5 billion
38. Suppose Parliament increases corporate income taxes. What would happen in the market for loanable funds?
- The interest rate and investment would fall.
 - The interest rate and investment would rise.
 - The interest rate would rise and investment would fall.
 - None of the above is necessarily correct.
39. Other things the same, if the government increases transfer payments to households, then
- investment will rise.
 - the rate of interest will rise.
 - public saving will rise.
 - the market for loanable funds will be unaffected.
 - None of the above will occur.
40. All other things equal, what is the impact of a sudden increase in interest rates on the price of (existing) bonds and stocks?
- Both the price of bonds and the price of stocks increase.
 - The price of bonds increases and the price of stocks decreases.
 - The price of bonds decreases and the price of stocks increases.
 - Both the price of bonds and the price of stocks decrease.

Short-Answer Questions (18 points)

Answer in the space provided.

41. (5 points) In 2008, a nation's population was 10 million. Its nominal GDP was \$40 billion, and its GDP deflator was 120. In 2009, its population had increased to 11 million, its nominal GDP had risen to 57.6 billion, and its GDP deflator had increase to 144. What was this nation's growth in standard of living during the year?

42. (5 points) Give examples of policies that a government can put in place to increase productivity.

