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Final
2009

THE UNIVERSITY OF WESTERN ONTARIO
LONDON CANADA

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Economics 1020 - 002/004
Final Exam Review I

April, 2009

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

1) Real GDP is not a perfect measure of total production because
A) it includes changes in the price level.
B) it excludes things we produce for ourselves as well as hidden or illegal production.
C) it includes things produced in the underground economy.
D) it includes intermediate goods and final goods, so there is double counting.
E) of all of the above.

Use the table below to answer the following question.

Table 1

Corporate profit	$200
Interest and miscellaneous investment income	150
Indirect taxes	230
Depreciation	250
Wages, salaries and supplementary labour income	1,350
Farmers' income	150
Income of nonfarm unincorporated businesses	70
C = Personal consumption	1,400
G = Government expenditures on goods and services	500
Government transfer payments	50
NX = Net exports	40
Subsidies	0

2) Refer to Table 1. Gross domestic product is equal to
A) $1,940.
B) $2,350.
C) $2,150.
D) $1,920.
E) $2,400.

* Income approach

Net domestic income @ factor cost (sum of all incomes) 1920
+ (Indirect taxes − subsidies) + 230
Net domestic income @ market prices 2150
+ Depreciation (capital consumption) + 250
GDP 2400

RE

Use the table below to answer the following question.

Table 2

Item	2002 Quantity	2002 Price	2003 Quantity	2003 Price
CD players	10	$100	15	$110
bananas	50 bunches	$2	100	$3

3) In Table 2, real GDP in 2003, using chain-weighted output index method, has increased by
(A) 55.25 percent.
B) 56 percent.
C) 54.5 percent.
D) 30 percent.
E) 75 percent.

	2002P	2003P
2002Q	1100	1250
2003Q	1700	1950

$\frac{1700-1100}{1100} \times 100 = 54.5\%$

$\frac{1950-1250}{1250} \times 100 = 56\%$

avg. 55.25%

4) Which one of the following would be counted as unemployed in Canada?
A) Kanhaya has stopped looking for work since he was unable to find a suitable job during a two-month search.
B) Doris works only 5 hours a week but is looking for a full-time job.
C) Taylor is a homemaker.
D) Maurice is on a 2 month vacation out of the country but is still looking for a job using the internet.
✓ E) Sharon recently began looking for work after staying at home for 10 years to look after her children.

5) 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 labour force participation rate is
A) 75.5 percent.
B) 65 percent.
✓C) 72.5 percent.
D) 57.5 percent.
E) none of the above.

WAP = 20
E = 13
UE = 1.5

$LFP = \frac{LF}{WAP} = \frac{E + UE}{WAP}$

$= \frac{13 + 1.5}{20}$

A B C

Use the figure below to answer the following question.

The following figure shows the aggregate demand (*AD*), short-run aggregate supply (*SAS*), and long-run aggregate supply (*LAS*) curves for Econoworld.

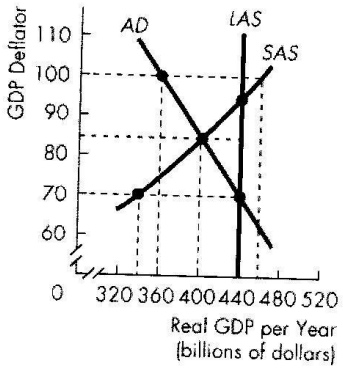

Figure 1

6) Refer to Figure 1. If Econoworld automatically adjusts to a long-run equilibrium,
A) the price level will be 70.
B) real GDP will be $440 billion.
C) actual unemployment will exceed the natural rate of unemployment.
D) potential GDP will be less than current actual GDP.
✓ E) both A and B.

7) If real GDP is greater than potential GDP, the economy is
A) in a below full-employment equilibrium.
B) in a recessionary equilibrium.
C) in long-run equilibrium.
D) not in short-run equilibrium.
E) in an above full-employment equilibrium.

Use the figure below to answer the following question.

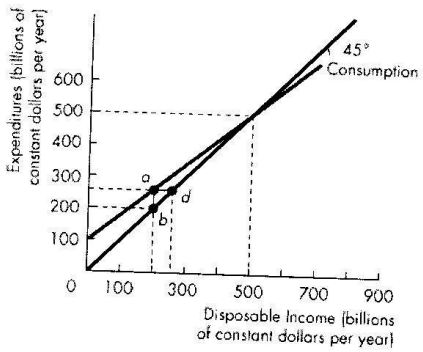

Figure 2

This figure describes the relationship between consumption expenditure and disposable income for a model economy.

8) Refer to Figure 2. Consumption and disposable income are equal at
A) an income level of $500 billion.
B) an income level of $600 billion.
C) any point along the consumption function.
D) a saving level equal to $40 billion and an income level equal to $540 billion.
E) none of the income levels.

Use the information below to answer the following question.

Fact 1

The economy of Tinseltown has a consumption function of $C = 15 + 0.7Y$, investment equal to 8, government expenditures equal to 12, exports equal to 20, and an import function of $M = 0.2Y$.

9) Consider Fact 1. What is the multiplier for this economy?
A) 1
B) 0.5
C) 10
D) 2
E) 3.33

$Y = C + I + G_1 + NX$ MPC = 0.7

$Y = (15 + 0.7Y) + 8 + 12 + 20 - 0.2Y$

$= 55 + 0.5Y$

$0.5Y = 55$

$Y = 110$

AE = $I + G_1 + X + C$

$132 = 8 + 12 + 20 + 15 + 0.7(110)$

4 D

10) Suppose the government starts with a debt of $0. Then, in year 1, there is a deficit of $100 billion, in year 2 there is a deficit of $60 billion, in year 3 there is a surplus of $40 billion, and in year 4 there is a deficit of $20 billion. What is government debt at the end of year 4?

✓A) $140 billion
B) $20 billion
C) $180 billion
D) Somewhat greater than $220 billion, depending on the interest rate
E) Somewhat greater than $140 billion, depending on the interest rate

100
+ 60
− 40
+ 20
140

11) Suppose that the slope of the aggregate expenditure function is 0.6, and the *MPC* is 0.8. The autonomous transfers multiplier is

A) -2.5.
B) 2.0.
C) 2.25.
D) -2.25.
E) 1.67.

Slope AE = 0.6
MPC = 0.8

$\frac{1}{1-\text{Slope AE}} = \frac{1}{1-0.6}$

12) Suppose that the banking system has excess reserves of $10 million, the desired reserve ratio is 10 percent and the currency drain ratio is 40 percent. By how much will the quantity of money increase?

A) $22 million
B) $12.5 million
C) $40 million
D) $50 million
✓E) $28 million

a = 40·1
b = 10·1
ΔMB = 10

$\Delta M = \frac{(1+a)}{(a+b)} \times \Delta MB$

Use the information below to answer the following question.

Fact 2

The information describes a hypothetical banking system.

Actual reserves in banking system	1 000
Total demand deposits	5 500
Securities held by commercial banks	1 000
Currency in circulation	500

M1

13) Consider Fact 2. The money supply as measured by M1 is equal to

A) 6,500
B) 1,500
C) 2,500
✓D) 6,000
E) 7,000

A B C D

Version 111

STUDENT NAME: _____

STUDENT NO.: _____

SECTION NO.: _____

THE UNIVERSITY OF WESTERN ONTARIO
LONDON CANADA

Jeannie Gillmore **ECONOMICS 1022B-002/004** **April 17, 2010**

FINAL EXAMINATION

INSTRUCTIONS:

1. The examination begins at **7:00 p.m.** and ends at **9:00 p.m.**

2. Check that your examination paper contains 18 pages.

3. Use a **BLACK PENCIL** to complete your Scantron Form.

   Print your **NAME** and complete your SIGNATURE on both the Scantron and exam paper.

   Enter your **STUDENT NUMBER** on both the Scantron and exam paper.

   Enter your **SECTION NUMBER**, which is either 002 or 004 on both the Scantron and exam paper.

4. **Please hand in <u>ALL MATERIALS</u>, including the examination paper.**

5. You may use a regular calculator but you may not use a programmable or graphing calculator. Your cell phone may *not* be used as a calculator.

6. Your cell phone must be switched off and left in your bag at the front of the exam room.

7. You must remain in the examination room until you have finished the exam. No breaks outside of the examination room will be allowed.

NOTE: QUESTIONS ARE PRINTED ON BOTH SIDES OF EACH PAGE

1) To derive net domestic income at market prices from gross domestic product, we
A) subtract gross investment from GDP (income approach).
B) subtract depreciation from GDP (income approach).
C) add the statistical discrepancy to GDP (income approach).
D) add depreciation to GDP (income approach).
E) subtract the statistical discrepancy from GDP (income approach).

Use the table below to answer the following question.

Table 1
There are only two goods in this economy.

	Price		Quantity	
	Base Year (dollars)	Current Year (dollars)	Base Year	Current Year
Bread	1.00	2.10	70,000	75,000
Computer Disks	1.00	1.80	25,000	18,000

2) Refer to Table 1. Consider the data in this table. What is current real GDP in terms of base-year prices?
A) $93,000.
B) $95,000.
C) $192,000.
D) $189,900.
E) None of the above.

3) Since 1960, the Canadian labor force participation rate has _____ and the unemployment rate has _____.
A) trended lower; varied over the business cycle
B) trended higher; varied over the business cycle
C) varied over the business cycle; trended higher
D) trended higher; trended higher
E) trended higher; trended lower

4) The official unemployment rate might underestimate the underutilization of labour resources for all of the following reasons *except* _____.
A) it excludes people who are waiting to be called back to jobs from which they have been laid off
B) it excludes marginally attached workers
C) it excludes part-time workers who want full-time jobs
D) it excludes discouraged workers
E) the official unemployment rate excludes all of the above

Use the table below to answer the following question.

Table 2

Suppose a simple economy produces three goods only.
The price and output data for some selected years are shown below.

	Price (dollars)	Price (dollars)	Quantity (number)	Quantity (number)
	1998	2008	1998	2008
Pop	0.75	1.10	100	120
Crackers	1.25	2.10	300	280
Cucumbers	2.00	3.00	200	190

5) Refer to Table 2. The reference base period is 2008. The CPI in 1998 is
A) 157.
B) 64.
C) 129.
D) 100.
E) 152.

6) *Ceteris paribus*, an increase in population results in a
A) higher level of labour employed and higher potential GDP per hour of labour.
B) lower level of labour employed and higher potential GDP per hour of labour.
C) higher level of labour employed and lower potential GDP per hour of labour.
D) constant level of labour employed and constant potential GDP per hour of labour.
E) lower level of labour employed and lower potential GDP per hour of labour.

Use the table below to answer the following question.

Table 3

Year	Capital per hour of labour (seashells)	Labour productivity (seashells)
2007	600.0	400.0
2008	654.0	424.0
2009	719.4	466.4

7) Refer to Table 3. The table shows capital per hour of labour and labour productivity for the beach economy of Whitepool. Whitepool follows a one-third rule. In the year 2008, how many seashells respectively does the increase in capital per hour of labor contribute and how many seashells of growth does technological change contribute to the growth in labour productivity?
   A) 12 seashells; 12 seashells
   B) 3 seashells; 3 seashells
   C) 24 seashells; 0 seashells
   D) 54 seashells; -30 seashells
   E) none of the above

Refer to the figure below to answer the following question.

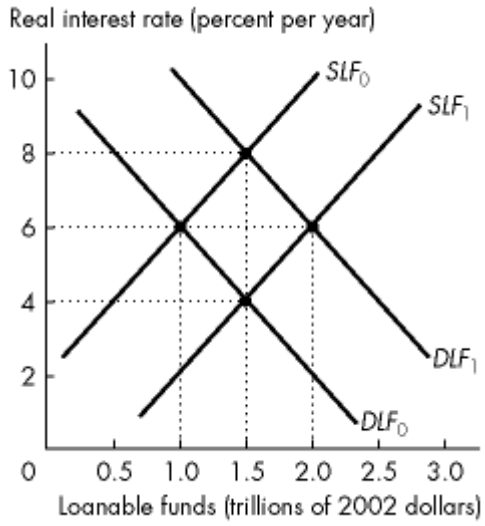

Figure 1

8) Refer to Figure 1. In Figure 1, the supply of loanable funds curve is SLF_0 and the demand for loanable funds curve is DLF_0. An expansion that increases disposable income and expected profit
   A) shifts the supply of loanable funds curve rightward to curve SLF_1 and does not shift the demand for loanable funds curve.
   B) shifts the supply of loanable funds curve rightward to curve SLF_1, and shifts the demand for loanable funds curve rightward to curve DLF_1.
   C) has no effect on either the demand for loanable funds curve or the supply of loanable funds curve.
   D) shifts the demand for loanable funds curve rightward to curve DLF_1 and does not shift the supply of loanable funds curve.
   E) none of the above.

Refer to the table below to answer the following question.

Table 4

Real interest rate (percent per year)	Loanable funds demanded (trillions of 2002 dollars)	Loanable funds supplied (trillions of 2002 dollars)
4	7.0	7.0
5	6.5	7.5
6	6.0	8.0
7	5.5	8.5
8	5.0	9.0
9	4.5	9.5
10	4.0	10.0

9) Refer to Table 4. The table shows an economy's demand for loanable funds schedule and the private supply of loanable funds schedule when the government's budget is balanced. If the government budget deficit is $1.0 trillion, the real interest rate is _____ percent a year, the quantity of investment is _____ trillion, and the quantity of private saving is _____ trillion.
A) 7; $8.5; $5.5
B) 5; $7.5; $6.5
C) 3; $6.5; $7.0
D) 7; $5.5; $8.5
E) 5; $6.5; $7.5

10) An increase in the government budget deficit _____. If the country is an international borrower, the government budget deficit _____. If the country is an international lender, the government budget deficit _____.
A) decreases the country's supply of loanable funds; increases foreign borrowing; decreases foreign lending
B) increases the country's supply of loanable funds; decreases foreign lending; increases foreign borrowing
C) decreases the country's demand for loanable funds; decreases foreign lending; increases foreign borrowing
D) increases the country's demand for loanable funds; increases foreign borrowing; decreases foreign lending
E) increases the country's demand for loanable funds; decreases foreign borrowing; increases foreign lending

11) Which of the following is an economic function of a chartered bank?
A) Pooling risk.
B) Issuing bank notes.
C) Supervising financial markets.
D) Conducting monetary policy.
E) None of the above.

12) The money creation process begins when
A) desired reserves increase because of an increase in deposits.
B) banks have excess reserves.
C) bank deposits increase.
D) banks lend reserves.
E) the quantity of money increases.

13) If the interest rate is below the equilibrium, how is equilibrium achieved in the money market?
A) People sell bonds to get rid of their excess money, lowering the price of bonds and raising the interest rate.
B) People buy goods to get rid of their excess money, lowering the price of goods and raising the interest rate.
C) People sell bonds to try and raise more money, lowering the price of bonds and raising the interest rate.
D) People sell goods to get rid of their excess money, lowering the price of goods and raising the interest rate.
E) People buy bonds to get rid of their excess money, raising the price of bonds and raising the interest rate.

14) Quantecon is a country in which the quantity theory of money operates. The country has a constant population, capital stock, and technology. In year 1, real GDP was $400 million, the price level was 200, and the velocity of circulation was 20.
In year 2 the quantity of money was 20 percent higher than in year 1.
The quantity of money in year 1 was _____.
The quantity of money in year 2 was _____.
The price level in year 2 is _____.
A) $20 million; 24 million; 240
B) $40 million; $48 million; 220
C) $40 million; $48 million; 240
D) $20 million; $24 million; 220
E) $80 million; $88 million; 200

15) In the United Kingdom, the currency drain ratio is 0.38 and the desired reserve ratio is 0.002. The U.K. money multilier is
A) 2.62.
B) 3.61.
C) 2.77.
D) 0.38.
E) 0.28.

16) Choose the incorrect statement.
A) The nominal CERI and the real CERI appreciated constantly between 1997 and 2008.
B) In the CERI, each currency gets a weight that represents the importance of the currency in Canada's international trade.
C) The average of the exchange rates of the Canadian dollar against the U.S. dollar, the European Union euro, the Japanese yen, the U.K. pound, the Chinese yuan, and the Mexican peso is the Canadian-dollar effective exchange rate index.
D) The absence of a gap between the real CERI and the nominal CERI between 1997 and 2008 results from the fact that the inflation rates in Canada and the other countries were similar.
E) The CERI shows that the dollar depreciated on average from 1997-2002 and then appreciated through 2007.

17) Which of the following factors influence the demand for Canadian dollars?
A) Interest rates in Canada and other countries, and the expected future exchange rate.
B) The world demand for Canadian exports.
C) The world demand for Canadian exports and Canadian demand for imports.
D) Both A and B.
E) Both B and C.

18) Suppose the interest rate in Canada rises and the interest rate in Japan remains the same. Interest rate parity implies that given equal risk
A) the yen is expected to appreciate against the dollar.
B) the inflation rate is higher in Japan.
C) Canadian financial investments are less profitable.
D) Japanese financial investments are less profitable.
E) the yen is expected to depreciate against the dollar.

Use the table below to answer the following question.

Table 5

Year	Borrowed from Rest of World (billions of dollars)	Loaned to Rest of World (billions of dollars)
1	60	20
2	60	40
3	60	60
4	60	80

19) Refer to Table 5. If Mengia's official settlement balance was in surplus every year, for which year or years can you say for sure there was a current account deficit?
A) years 3 and 4
B) year 2 only
C) years 2 and 3
D) years 1, 2, and 3
E) year 1 only

20) A country's currency appreciates and its official holdings of foreign currency increase. The central bank is _____ foreign currency to limit the appreciation, and the official settlements account balance is _____.
A) buying; negative
B) buying; zero
C) buying; positive
D) selling; positive
E) selling negative

21) Suppose there is an increase in the quantity of capital. As a result, the *SAS*
A) and the *LAS* curves both shift leftward.
B) curve does not shift but the *LAS* curve shifts leftward.
C) and the *LAS* curves both shift rightward.
D) curve does not shift but the *LAS* curve shifts rightward.
E) shifts rightward, but the *LAS* curve does not shift.

22) Which one of the following variables can change without creating a shift of the aggregate demand curve?
A) Price level.
B) Expectations about inflation.
C) The tax rate.
D) Monetary policy.
E) The interest rate.

Use the table below to answer the following question.

Table 6

Price Level (2002=100)	Aggregate Demand (billions of 2002 dollars)	Short-Run Aggregate Supply (billions of 2002 dollars)	Long-Run Aggregate Supply (billions of 2002 dollars)
100	800	300	600
110	700	400	600
120	600	500	600
130	500	600	600
140	400	700	600

23) Refer to Table 6. Consider the economy represented in the table. The economy eventually moves to its long-run equilibrium. In long-run equilibrium, the price level is _____ and real GDP is _____ billion.
A) 130; $600
B) 120; $500
C) 130; $500
D) 120; $600
E) 125; $550

Use the table below to answer the following question.

Table 7

	2004	**2005**	**2006**
Real GDP growth rate	8.1	8.3	7.3
Inflation	4.2	4.7	4.6

24) Refer to Table 7. The International Monetary Fund's World Economic Outlook database provides the data given in the table for India in 2004, 2005 and 2006.
The numbers in the table are consistent with
A) increases in long-run and short-run aggregate supply and even greater increases in aggregate demand.
B) increases in long-run and short-run aggregate supply and even larger decreases in aggregate demand.
C) increases in short-run aggregate supply and no change in aggregate demand.
D) increases in short-run aggregate supply and increases in aggregate demand, but the increases in aggregate demand are smaller than the increases in short-run aggregate supply.
E) decreases in long-run and short-run aggregate supply and even greater decreases in aggregate demand.

25) Keynesian macroeconomists recommend
A) policies that actively offset changes in long-run aggregate supply that result in negative economic growth.
B) policies that minimize the disincentive effects of taxes on employment, investment, and technological change.
C) policies that actively offset changes in aggregate demand that bring recession.
D) an increase in the quantity of money to offset decreases in aggregate demand and a decrease in the quantity of money to offset increases in aggregate demand.
E) none of the above.

Use the table below to answer the following question.

Table 8

Disposable Income (dollars)	Consumption Expenditure (dollars)
325	325
400	375
475	425
550	475
625	525

26) Refer to Table 8. What is the value of the marginal propensity to save?
A) 1.33
B) 0.33
C) 0.27
D) 0.67
E) 0.25

Use the figure below to answer the following question.

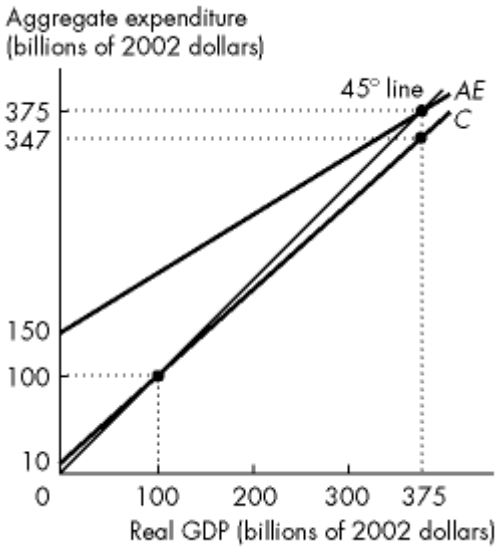

Figure 2

There are no taxes in this economy.

27) In Figure 2, at the equilibrium level of real GDP, *induced* expenditure is
A) $347 billion.
B) $225 billion.
C) $375 billion.
D) $150 billion.
E) $28 billion.

Use the figure below to answer the following question.

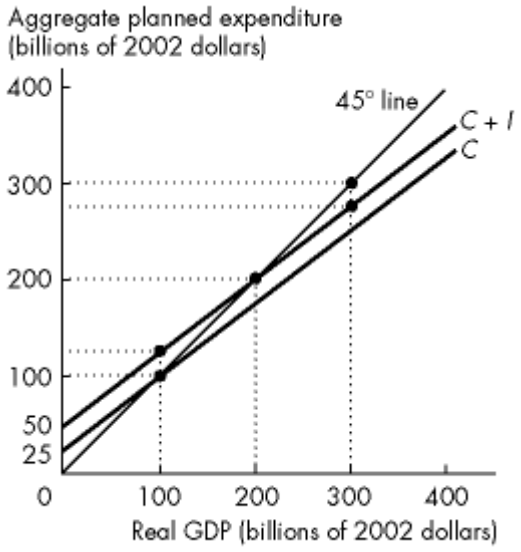

Figure 3

The economy shown in the graph does not engage in international trade and has no government. Planned aggregate expenditure equals the sum of consumption expenditure (*C*) and investment (*I*).

28) Refer to Figure 3. If investment increases by $25 billion, then real GDP increases by
A) $50 billion.
B) $125 billion.
C) $100 billion.
D) $75 billion.
E) $25 billion.

29) An increase in investment shifts the *AE* curve upward by an amount equal to the _____, and shifts the *AD* curve rightward by an amount equal to the _____.
A) change in investment times the multiplier; change in investment
B) change in investment times the multiplier; change in investment times the multiplier
C) change in investment; change in investment times the multiplier
D) change in investment; change in investment
E) change in investment divided by the multiplier; change in investment

30) You are given the following information about the Canadian economy. Autonomous consumption expenditure is $50 billion, investment is $200 billion, and government expenditure is $250 billion. The marginal propensity to consume is 0.7 and net taxes are $250 billion. Net taxes are assumed to be constant and not vary with income. Exports are $500 billion and imports are $450 billion.

The equation of the *AE* curve in billions of dollars is _____. Equilibrium expenditure is _____.

A) $AE = 0.7Y + 1{,}275$; $4,250 billion
B) $AE = 0.7Y + 375$; $1,250 billion
C) $AE = 0.7Y + 375$; $536 billion
D) $AE = 0.7 + 375Y$; $1,250 billion
E) $AE = 0.7Y + 300$; $1,000 billion

31) The economy starts out at a full-employment equilibrium. Some events then occur that generate a demand-pull inflation.
All of the following events *except* an increase in _____ might cause a demand-pull inflation.

A) transfer payments
B) the money wage rate
C) government expenditure
D) exports
E) the quantity of money

32) The Canadian short-run Phillips curve _____ when the expected inflation rate rises and _____ when the expected inflation rate falls.
The Canadian short-run Phillips curve _____ when the natural unemployment rate increases and _____ when the natural unemployment rate decreases.

A) shifts upward; shifts downward; does not shift; does not shift
B) does not shift; does not shift; shifts rightward; shifts leftward
C) shifts upward; shifts downward; shifts rightward; shifts leftward
D) shifts upward; does not shift; shifts rightward; does not shift
E) shifts downward; shifts upward; shifts rightward; shifts leftward

33) The Canadian long-run Phillips curve _____ when the expected inflation rate rises and _____ when the expected inflation rate falls.
The Canadian long-run Phillips curve _____ when the natural unemployment rate increases and _____ when the natural unemployment rate decreases.

A) shifts rightward; shifts leftward; does not shift; does not shift
B) shifts upward; shifts downward; shifts rightward; shifts leftward
C) shifts rightward; shifts leftward; shifts rightward; shifts leftward
D) does not shift; does not shift; shifts rightward; shifts leftward
E) does not shift; does not shift; does not shift; does not shift

34) The key ripple effect in real business cycle theory is the _____ decision and it depends on the _____.
A) when-to-work; real interest rate
B) what-to-save; nominal interest rate
C) when-to-invest; real interest rate
D) where-to-work; real wage rate
E) when-to-work; rigidity of the money wage rate

35) According to real business cycle theory, if the Bank of Canada increases the quantity of money when real GDP decreases, real GDP
A) will increase but only temporarily.
B) will be unaffected, but the price level will rise.
C) will decrease due to the inefficiencies introduced into production as a result.
D) will increase permanently.
E) and the price level will both be unaffected.

36) The current federal government budget includes all of the following policies *except*
A) provides $3.2 billion in personal income tax relief to support growth and job creation.
B) supports the next generation of business leaders with $10 million in new funding for the Canadian Youth Business Foundation.
C) commits $600 million to help develop and attract talented people to strengthen Canada's capacity for world-leading research and development.
D) increases the Employment Insurance premium rates to create a greater pool of funds to pay the unemployed in case of another recession
E) encourages investment in energy projects and clean energy generation.

37) The autonomous tax multiplier equals
A) -*MPC*/(1-slope of *AE* curve).
B) -*MPC*/(1-*MPC*).
C) *MPC*/(1-slope of *AE* curve).
D) *MPC*/(1-*MPC)*.
E) -slope of *AE* curve/(1-slope of *AE* curve).

38) Government debt in Canada is
A) less in 2010 than it was in 2009.
B) equal to revenues minus outlays.
C) greater in 2010 than it was in 2009.
D) always increasing.
E) one-tenth the size of the U.S. government debt.

39) An income tax _____ potential GDP by shifting the labour _____ curve _____.
A) decreases; demand; rightward
B) decreases; supply; leftward
C) increases; supply; rightward
D) increases; supply curve and labour demand curve; rightward
E) increases; demand; rightward

40) According to the Laffer curve, raising the tax rate
A) always increases the amount of tax revenue.
B) does not change the amount of tax revenue.
C) might increase, decrease, or not change the amount of tax revenue.
D) has no effect on the amount of tax revenue.
E) always decreases the amount of tax revenue.

41) Currently the government of Ricardia has outlays equal to $100 billion, and a tax scheme that is related positively to real GDP by the following equation: Taxes = $25 billion + 0.1(real GDP). What are autonomous taxes in Ricardia?
A) $25 billion
B) $2.5 billion
C) 0.1
D) It depends on the level of real GDP.
E) $250 billion

Use the figure below to answer the following question.

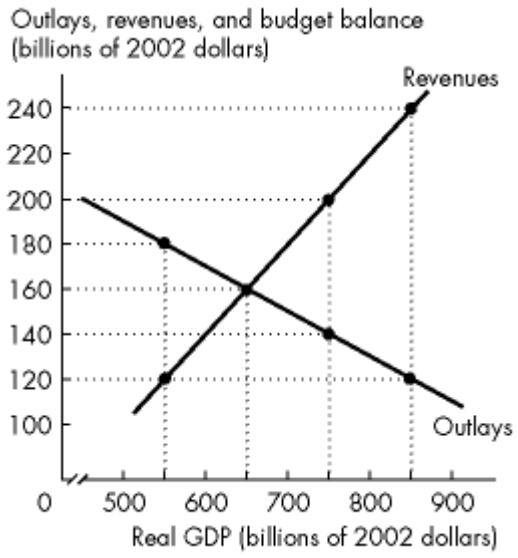

Figure 4

42) Refer to Figure 4, which shows the outlays and revenues for the government of Pianoland. If real GDP equals $550 billion, the structural deficit is
A) a surplus of $60 billion.
B) $60 billion.
C) zero.
D) a surplus of $40 billion.
E) unknown given the available information.

43) One criticism of the Bank of Canada's focus on an inflation control target is that
A) it makes setting expectations of inflation difficult.
B) if inflation falls below the target range a recession will result.
C) the Bank rarely achieves its target.
D) the Bank pays too much attention to unemployment and real GDP growth and not enough to inflation control.
E) if inflation edges above the target range, the Bank decreases aggregate demand and could create a recession.

44) The objective of the Bank of Canada's monetary policy is
A) to keep the unemployment rate below 5 percent, the inflation rate between 1 and 3 percent a year, and long-term real GDP growth above 4 percent a year.
B) to keep the overnight loans rate below 2 percent a year and the unemployment rate at its natural rate.
C) to keep the labour force participation rate above 80 percent, the inflation rate below 2 percent a year, and the exchange rate fluctuating by less than 3 percent a year.
D) to control the quantity of money and interest rates to avoid inflation and when possible prevent excessive swings in real GDP growth and unemployment.
E) to keep the unemployment rate below 5 percent, the inflation rate between 1 and 3 percent a year, and long-term interest rates below 4 percent a year.

45) When the Bank of Canada buys securities, reserves _____. The Bank of Canada's assets _____ and its liabilities _____.
A) decrease; decrease; decrease
B) increase; increase; decrease
C) increase; decrease; increase
D) decrease; decrease; increase
E) increase; increase; increase

46) The overnight rate is determined by equilibrium in the market for _____. The overnight rate _____.
A) loanable funds; equals the real interest rate
B) money; equals the real interest rate
C) reserves; is the rate that sets the quantity of reserves demanded equal to the quantity of reserves supplied
D) reserves; equals the real interest rate minus the inflation rate
E) loanable funds; equals the real interest rate minus the inflation rate

47) When the Bank of Canada raises the overnight loans rate, other short-term interest rates
A) fall, consumption expenditure, investment and net exports decrease, and the aggregate demand curve shifts leftward.
B) rise, consumption expenditure, investment and net exports decrease, and the aggregate demand curve shifts leftward.
C) fall, consumption expenditure, investment and net exports increase, and the aggregate demand curve shifts rightward.
D) rise, consumption expenditure, investment and net exports increase, and the aggregate demand curve shifts rightward.
E) none of the above.

48) The purchase of government bonds by the Bank of Canada
A) decreases the supply of loanable funds.
B) increases aggregate demand.
C) raises the overnight loans rate.
D) decreases bank reserves.
E) decreases the quantity of money.

49) Suppose the neutral real overnight rate is 2 percent per year, inflation is 2.5 percent, the target inflation rate is 2 percent, and the output gap is 1 percent. Using the Taylor rule, the Bank of Canada sets the overnight loans rate equal to
A) 3 percent.
B) 5.5 percent.
C) 5.25 percent.
D) 3.5 percent.
E) 5.75 percent.

50) The *k*-percent rule makes the quantity of money
A) grow at a decreasing rate.
B) grow at a rate equal to the growth rate of potential GDP.
C) grow at an increasing rate.
D) respond to the state of the economy using all the information available.
E) none of the above.

THE UNIVERSITY OF WESTERN ONTARIO
LONDON CANADA
Economics 1022B - 002/004
J. Gillmore **Review 3** **April, 2012**

1) Suppose the price of a burger is $4.50 Canadian in Toronto, and the exchange rate is 67 U.S. cents per Canadian dollar. Then
A) the price of a burger is $3 U.S. in New York if purchasing power parity holds.
B) the Canadian dollar is expected to depreciate according to purchasing power parity.
C) the price of a burger is $3 U.S. in New York if interest rate parity holds.
D) the price of a burger is $4.50 U.S. in New York if purchasing power parity holds.
E) the Canadian dollar is expected to appreciate according to purchasing power parity.

Use the information below to answer the following question.

Fact 1

You are given the following information about the country of Ecoland, whose currency is the turkey, and whose official settlements balance is zero.

Variable	Billions of turkies
Real GDP	50
Consumption expenditure	30
Government expenditure on goods and services	12
Investment	11
Exports	10
Government budget deficit	2

2) Refer to Fact 1. What is the value of the private sector deficit or surplus?
A) zero
B) +1 billion turkies
C) -3 billion turkies
D) -2 billion turkies
E) -1 billion turkies

3) Which one, if any, of the following events shift the short-run aggregate supply curve but not the long-run aggregate supply curve?
A) A change in the quantity of capital.
B) An advance in technology.
C) An increase in the full-employment quantity of labour.
D) A change in factor prices.
E) None of the above.

Use the table below to answer the following question.

Table 1

Price Level (2002=100)	Aggregate Demand (billions of 2002 dollars)	Short-Run Aggregate Supply (billions of 2002 dollars)	Long-Run Aggregate Supply (billions of 2002 dollars)
100	800	300	600
110	700	400	600
120	600	500	600
130	500	600	600
140	400	700	600

4) Refer to Table 1. Consider the economy represented in the table. The economy is in
A) a long-run equilibrium, and resource prices will not change.
B) an above full-employment equilibrium, and factor prices will increase.
C) a below full-employment equilibrium, and factor prices will increase.
D) an above full-employment equilibrium, and factor prices will decrease.
E) a below full-employment equilibrium, and factor prices will decrease.

Use the table below to answer the following question.

Table 2

Disposable Income (dollars)	Consumption Expenditure (dollars)
325	325
400	375
475	425
550	475
625	525

5) Refer to Table 2. What is the value of the marginal propensity to consume?
A) 1.33
B) 0.75
C) 0.67
D) 0.34
E) 0.25

Use the table below to answer the following question.

Table 3

The following table shows the relationship between aggregate planned expenditure and GDP in the hypothetical economy of Econoworld.

Real GDP (billions of 2002 dollars)	Aggregate planned expenditure (billions of 2002 dollars)
0	100
200	260
400	420
600	580
800	740

6) Refer to Table 3. The equilibrium level of real GDP is
A) $525 billion.
B) $450 billion
C) $500 billion
D) $550 billion.
E) none of the above.

Use the figure below to answer the following question.

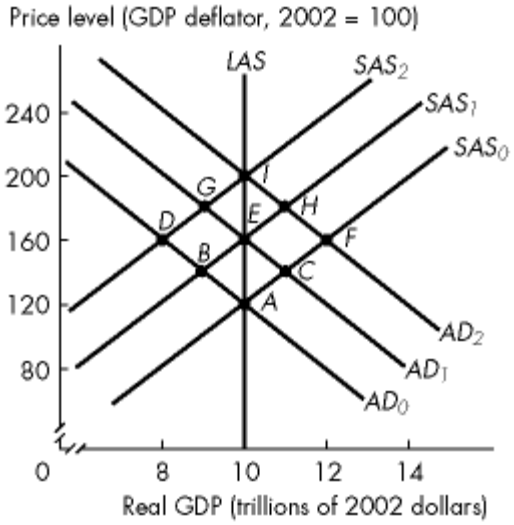

Figure 1

7) Refer to Figure 1. Starting at point *A*, the initial effect of a demand-pull inflation is a move to point _____. As a demand-pull inflation spiral proceeds, it follows the path _____.
   A) *C; B, H, G, I*
   B) *B; E, G, I*
   C) *C; E, H, I*
   D) *E; I*
   E) none of the above

8) If the natural unemployment rate increases, the long-run Phillips curve _____, the short-run Phillips curve _____, and the expected inflation rate _____.
   A) shifts rightward; curve does not shift; falls
   B) shifts rightward; shifts rightward; does not change
   C) does not shift; does not shift; does not change
   D) shifts rightward; shifts rightward; falls
   E) does not shift; shifts rightward; rises

9) Suppose that in China, investment is $400 billion, saving is $400 billion, tax revenues are $500 billion, exports are $300 billion, and imports are $200 billion. The government budget _____ the supply of loanable funds, which _____ the real interest rate and _____ investment.
   A) surplus decreases; raises; increases
   B) deficit decreases; raises; decreases
   C) surplus increases; lowers; increases
   D) surplus increases; lowers; decreases
   E) surplus increases; raises; decreases

10) Currently the government of Ricardia has outlays equal to $100 billion, and a tax scheme that is related positively to real GDP by the following equation: Taxes = $25 billion + 0.1(real GDP). What is the real GDP when the government has a balanced budget?
A) $1,250 billion
B) $750 billion
C) $250
D) $1,000 billion
E) $100

Use the figure below to answer the following questions.

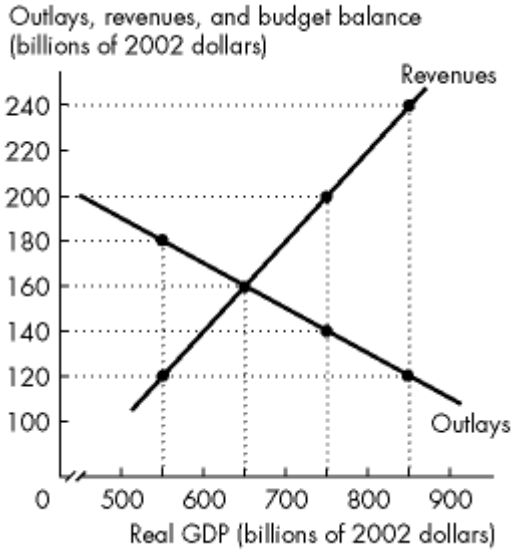

Figure 2

11) Refer to Figure 2, which shows the outlays and revenues for the government of Pianoland. If potential GDP is $750 billion,
A) the structural surplus is $60 billion.
B) neither a structural surplus nor a structural deficit exists.
C) the structural deficit is $40 billion.
D) the structural surplus is $40 billion.
E) the structural deficit is $60 billion.

12) Refer to Figure 2, which shows the outlays and revenues for the government of Pianoland. If potential GDP is $750 billion, and actual real GDP is $650 billion, the cyclical deficit is
A) equal to the structural deficit.
B) $40 billion.
C) $60 billion.
D) zero.
E) $180 billion.

13) Why does the Bank of Canada pay close attention to the core inflation rate in addition to the overall CPI inflation rate?
A) The core rate includes taxes, while the overall CPI rate does not.
B) The core rate excludes eight volatile prices and is therefore more likely to stay within the target band.
C) The core rate is less volatile and a better predictor of future CPI inflation.
D) The core rate is more volatile and therefore a better predictor of trend inflation.
E) The core rate has a lower average value and therefore makes the Bank look better.

14) When the Bank of Canada sells securities, the interest rate _____. The Bank of Canada's assets and liabilities _____.
A) rises; increase during an expansion and decrease during a recession
B) falls; increase
C) rises; decrease
D) falls; increase
E) rises; decrease

15) When the Bank of Canada lowers the overnight loans rate, the Canadian dollar _____ on the foreign exchange market and _____.
A) falls; aggregate demand increases
B) rises; aggregate demand decreases
C) rises; U.S. aggregate demand decreases
D) falls; aggregate demand decreases
E) falls; the increase in imports is greater than the increase in exports

THE UNIVERSITY OF WESTERN ONTARIO
LONDON CANADA
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J. Gillmore **Review 4** **April, 2012**

1) A south sea island produces only coconuts.
In 2005, the price of a coconut is $2.00 and the quantity produced is 400.
In 2008, the price of a coconut is $1.50 and the quantity produced is 350.
2005 is the reference base year.
Real GDP in 2008 in terms of base-year prices is
A) $750.
B) $525.
C) $800.
D) $600.
E) $700.

2) Interest plus miscellaneous investment income is a component of which approach to measuring GDP?
A) Output approach.
B) Income approach.
C) Opportunity cost approach.
D) Expenditure approach.
E) Injections approach.

3) The unemployment rate is supposed to measure _____. It is an imperfect measure because _____.
A) the underutilization of labour resources; it excludes some underutilized labour and some unemployment is unavoidable
B) the percentage of the working-age population who are unemployed; it is impossible to count everyone in the working-age population
C) the underutilization of labour resources; it includes part-time workers and excludes discouraged workers
D) the number of unemployed plus the number of marginally attached workers expressed as a percentage of the labour force; it excludes the marginally attached workers because Statistics Canada considers them as employed
E) the percentage of the labour force who are unemployed; it is impossible to count everyone in the labour force

Use the table below to answer the following question.

Table 1

Suppose a simple economy produces three goods only.
The price and output data for some selected years are shown below.

	Price (dollars)	Price (dollars)	Quantity (number)	Quantity (number)
	1998	2008	1998	2008
Pop	0.75	1.10	100	120
Crackers	1.25	2.10	300	280
Cucumbers	2.00	3.00	200	190

4) Refer to Table 1. The reference base period is 1998. The CPI in 2008 is
A) 100.
B) 63.
C) 158.
D) 1,340.
E) 96.

5) When the population increases with no change in labour productivity, employment _____ and potential GDP _____.
A) increases; increases
B) increases; decreases
C) increases; does not change
D) decreases; decreases
E) decreases; increases

Use the table below to answer the following question.

Table 2

Year	Capital per hour of labour (seashells)	Labour productivity (seashells)
2007	600.0	400.0
2008	654.0	424.0
2009	719.4	466.4

6) Refer to Table 2. The table shows capital per hour of labour and labour productivity for the beach economy of Whitepool. Whitepool follows a one-third rule. In the year 2009, what is the contribution respectively of the increase in capital per hour of labor and the contribution of technological change to the growth in labour productivity?

A) 10 percent; 0 percent
B) 3 1/3 percent; 6 2/3 percent
C) 5 percent; 5 percent
D) none of the above.
E) 0 percent; 10 percent

Refer to the figure below to answer the following question.

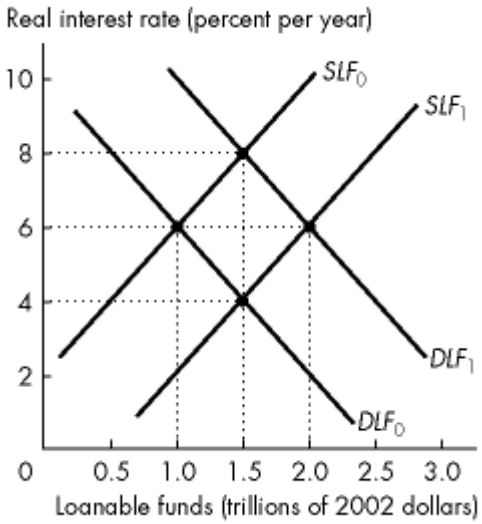


Figure 1

7) Refer to Figure 1. In Figure 1, the initial supply of loanable funds curve is SLF_0 and the initial demand for loanable funds curve is DLF_0. An increase in the expected profit
A) shifts the demand for loanable funds curve rightward to curve DLF_1 and does not shift the supply of loanable funds curve.
B) shifts the supply of loanable funds curve rightward to curve SLF_1, and shifts the demand for loanable funds curve rightward to curve DLF_1.
C) has no effect on either the demand for loanable funds curve or the supply of loanable funds curve.
D) shifts the supply of loanable funds curve rightward to curve SLF_1 and does not shift the demand for loanable funds curve.
E) none of the above.

8) If a country has a shortage of loanable funds at the world real interest rate _____.
A) the country decreases its net exports
B) the country increases its net exports ch23 p558
C) the demand for loanable funds in this country decreases
D) world suppliers of loanable funds move funds to this country
E) the world interest rate falls

9) Which of the following does *not* affect the size of the monetary base?
A) The amount of loans issued by chartered banks.
B) The amount of notes issued by the Bank of Canada.
C) The amount of chartered bank deposits at the Bank of Canada.
D) The amount of coins issued by the Canadian Mint.
E) None of the above.

Use the table below to answer the following question.

Table 3

Price Level (2002=100)	Aggregate Demand (billions of 2002 dollars)	Short-Run Aggregate Supply (billions of 2002 dollars)	Long-Run Aggregate Supply (billions of 2002 dollars)
100	800	300	600
110	700	400	600
120	600	500	600
130	500	600	600
140	400	700	600

10) Refer to Table 3. Consider the economy represented in the table. There is
A) an inflationary gap equal to $100 billion.
B) a recessionary gap equal to $100 billion.
C) an inflationary gap equal to $50 billion.
D) neither an inflationary nor a recessionary gap because the economy is at full employment.
E) a recessionary gap equal to $50 billion.

Use the table below to answer the following question.

Table 4

The following table shows the relationship between aggregate planned expenditure and GDP in the hypothetical economy of Econoworld.

Real GDP (billions of 2002 dollars)	Aggregate planned expenditure (billions of 2002 dollars)
0	100
200	260
400	420
600	580
800	740

11) Refer to Table 4. The multiplier
A) is 4.
B) is 1.8.
C) is 5.
D) is 2.5.
E) cannot be determined without more information.

12) If there is a fully anticipated increase in the inflation rate
A) the economy is operating on the *LRPC* curve.
B) unemployment will be below the natural rate.
C) the natural unemployment rate will increase.
D) the economy is not operating on the *LRPC* curve.
E) unemployment will be above the natural rate.

13) The Laffer curve shows that increasing _____ increases _____ when _____ low.
A) the tax rate; tax revenue; the tax rate is
B) tax revenue; potential GDP; tax revenue is
C) potential GDP; tax revenue; tax revenue is
D) government outlays; the budget deficit; government expenditure is
E) investment; potential GDP; the interest rate is

14) If the Bank of Canada buys government securities in the open market, the supply curve of real money shifts
A) leftward and the overnight rate falls.
B) rightward and the overnight rate rises.
C) rightward and the overnight rate remains constant because the demand for money increases at the same time.
D) leftward and the overnight rate rises.
E) none of the above.

THE UNIVERSITY OF WESTERN ONTARIO
LONDON CANADA

B. Hammond ECONOMICS 1022B-003 April 2012

REVIEW TEST

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

Use the figure below to answer the following question.

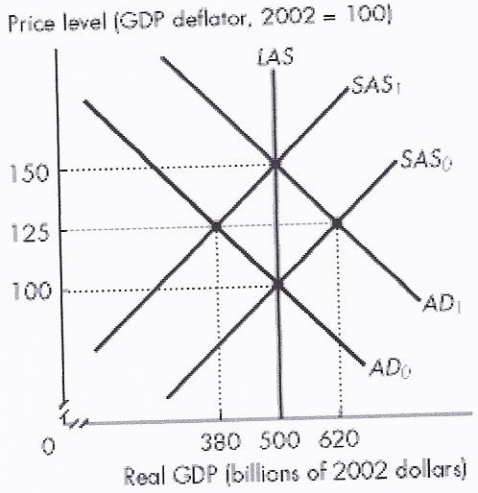


Figure 1

1) Refer to Figure 1. The figure illustrates an economy initially in equilibrium at the intersection of the SAS_0 curve and the AD_0 curve. Which of the following shifts the short-run aggregate supply curve from SAS_0 to SAS_1?
   A) An increase in the price level.
   B) A decrease in the money wage rate.
   C) An increase in the price of oil.
   D) An increase in the demand for money.
   E) An increase in the marginal product of labour.

Use the figure below to answer the following questions.

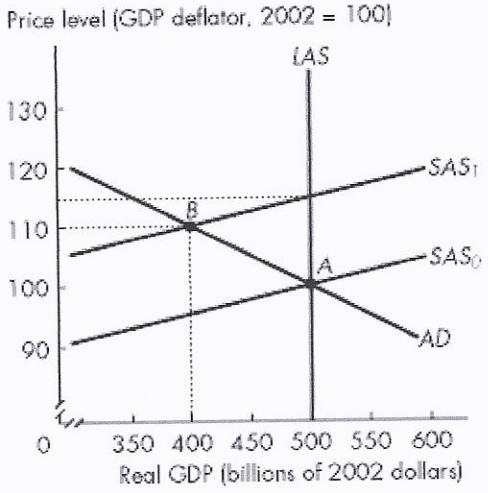


Figure 2

2) Refer to Figure 2. The economy is in long-run equilibrium. If the short-run aggregate supply curve shifts leftward from SAS_0 to SAS_1, *ceteris paribus*, then people expected
   A) the real wage rate to fall by 10 percent.
   B) the price level to rise to 110.
   C) a real GDP decrease of $50 billion.
   D) a 10 percent inflation.
   E) a 15 percent inflation.

3) Refer to Figure 2. The economy is in long-run equilibrium. If the short-run aggregate supply curve shifts leftward from SAS_0 to SAS_1, *ceteris paribus*, then the actual inflation rate
   A) is the same as the expected inflation rate.
   B) is less than the expected inflation rate.
   C) depends on what happens to wage settlements.
   D) cannot be determined without more information.
   E) is greater than the expected inflation rate.

4) Refer to Figure 2. If *SAS* shifts from SAS_0 to SAS_N, then
   A) inflation is expected to be 10 percent.
   B) inflation will be 10 percent.
   C) a recession will occur.
   D) unemployment will fall.
   E) B and C.

Use the figure below to answer the following question.

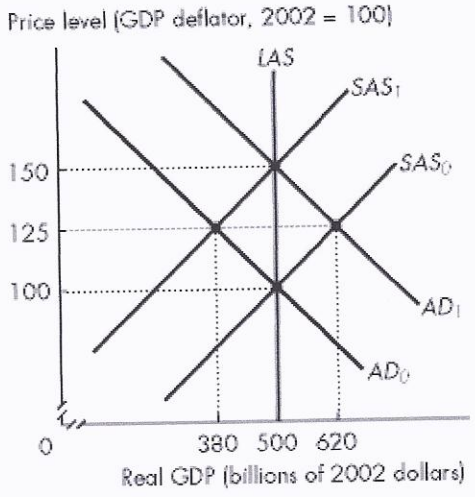


Figure 3

5) Refer to Figure 3. Assume that the figure illustrates an economy initially in equilibrium at the intersection of the SAS_0 curve and the AD_0 curve. If the aggregate demand curve is correctly expected to shift to AD_1, new equilibrium real GDP is 150 and the new equilibrium price level is 500.

A) $380 billion; 125
B) $500 billion; 100
C) $620 billion; 125
D) $500 billion; 150
E) $500 billion; 125

Use the figure below to answer the following question.

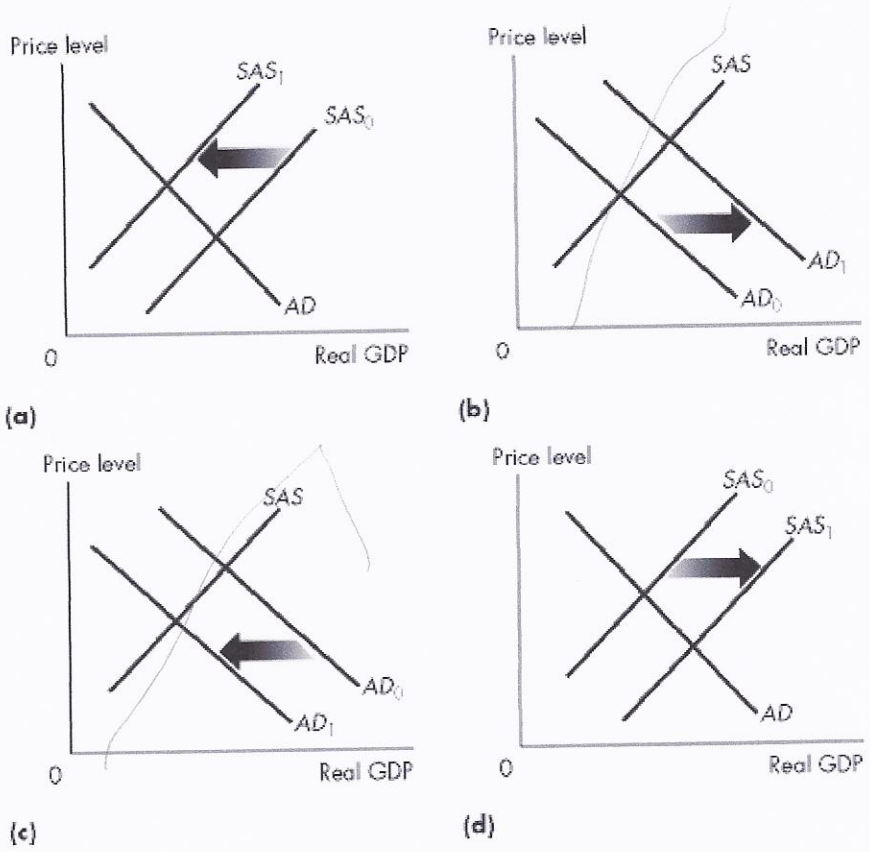


Figure 4

6) Refer to Figure 4. Which one of the graphs in the figure represents an economy with the price level expected to remain constant?
   A) (a)
   B) (b)
   C) (c)
   D) (d)
   E) none of the above

7) If the unemployment rate rises and the inflation rate falls, while the natural unemployment rate and the expected inflation rate remain constant, then we are studying a movement along the
   A) short-run Phillips curve.
   B) long-run aggregate supply curve.
   C) Phelps-Friedman curve.
   D) aggregate demand curve.
   E) Friedman curve.

8) *Ceteris paribus*, an increase in labour productivity results in a
A) lower real wage rate and higher potential GDP per hour of labour.
B) constant real wage rate in the long run.
C) lower real wage rate and lower potential GDP per hour of labour.
D) higher real wage rate and lower potential GDP per hour of labour.
E) higher real wage rate and higher potential GDP per hour of labour.

9) An increase in population results in
A) a leftward shift of the labour supply curve.
B) a movement along the production function.
C) an upward shift in the production function.
D) a rightward shift of the labour demand curve.
E) both B and D are correct.

10) *Ceteris paribus*, an increase in population results in a
A) higher level of labour employed and higher potential GDP per hour of labour.
B) lower level of labour employed and lower potential GDP per hour of labour.
C) constant level of labour employed and constant potential GDP per hour of labour.
D) higher level of labour employed and lower potential GDP per hour of labour.
E) lower level of labour employed and higher potential GDP per hour of labour.

11) Labour productivity grows as
A) consumption expenditure increases.
B) depreciation increases.
C) physical capital grows.
D) human capital grows.
E) both C and D are correct.

12) Which of the following is *not* a source of economic growth?
A) increasing stock market prices
B) growing physical capital
C) advances in technology
D) better educated workers
E) appropriate incentive system

Use the information below to answer the following question.

Fact 1

Agnes can produce either 1 unit of X or 1 unit of Y in an hour, while Brenda can produce either 2 units of X or 4 units of Y in an hour.

13) Given Fact 1, what would be the total output of X and Y in an eight-hour day if Agnes and Brenda each specialized in producing the good in which they have a comparative advantage?
A) 16 units of X and 8 units of Y
B) 3 units of X and 5 units of Y
C) 24 units of X and 40 units of Y
D) 8 units of X and 16 units of Y
E) 8 units of X and 32 units of Y

14) Consider the following household. In 5 hours, Bob can cook 5 meals or clean 6 rooms. In 5 hours, Mary can cook 30 meals or clean 10 rooms. Select the best statement.
A) Bob has a comparative advantage in cooking.
B) Mary should specialize in cooking.
C) Bob has an absolute advantage in the production of both goods.
D) Since Mary is better at producing both goods, she should produce both.
E) none of the above

15) In one hour, Sue can produce 50 caps or 10 jackets and Tessa can produce 70 caps or 7 jackets. Sue's opportunity cost of producing a cap is 0.2 jackets and Tessa's opportunity cost of producing a cap is 0.1 jackets.
Tessa has a comparative advantage in producing caps.
If Sue and Tessa each specialize in producing the good in which they have a comparative advantage and trade 1 jacket for 7 caps, _____.
A) 0.2; 0.10; Sue; Tessa gains but Sue loses
B) 0.2; 0.10; Tessa; both Sue and Tessa gain
C) 0.2; 0.10; Sue; both Sue and Tessa gain
D) 5.0; 10.0; Tessa; Sue loses but Tessa gains
E) 5.0; 10.0; Sue; both Sue and Tessa gain

Refer to the table below to answer the following question.

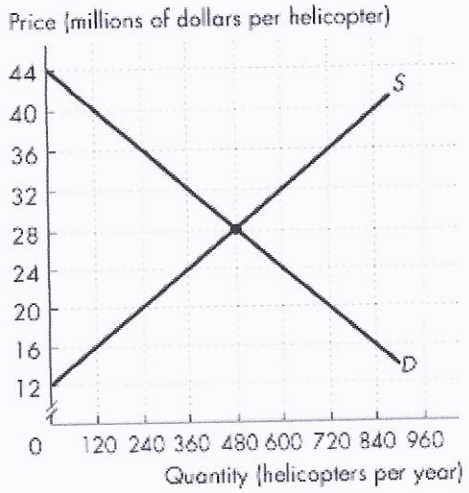
Table 1
Glazeland's Doughnut Market

Price (dollars per doughnut)	Glazeland's Supply (millions)	Glazeland's Demand (millions)
0.20	1	10
0.30	2	8
0.40	3	6
0.50	4	4
0.60	5	2
0.70	6	0

16) Table 1 shows Glazeland's doughnut market before international trade. Glazeland opens up to international trade. If the world price is $0.40, then Glazeland will produce _____ doughnuts and will _____ doughnuts.
A) 3 million; import 3 million
B) 3 million; export 3 million
C) 4 million; import 1 million
D) 6 million; export 3 million
E) 4 million; export 1 million

17) Canada produces both lumber and wine. Canada exports lumber and imports wine. The rest of the world imports Canadian lumber and exports wine to Canada. Canada has a comparative advantage in producing _____. The rest of the world has a comparative advantage in producing _____.
A) lumber; lumber
B) wine; wine
C) lumber; wine
D) a good other than lumber or wine; wine
E) wine; lumber

Refer to the figure below to answer the following question.



The figure shows the market for helicopters in Canada, where *D* is the domestic demand curve and S is the domestic supply curve. Canada trades helicopters with the rest of the world at a price of $36 million per helicopter.

Figure 5

18) In Figure 5, Canada _____ helicopters per year.
A) exports 480
B) imports 240
C) imports 480
D) exports 720
E) exports 240

19) If Canada imposes a tariff of $1 per imported shirt, the tariff
A) raises the price of a shirt paid by Canadian consumers.
B) benefits Canadian shirt producers.
C) creates a social loss.
D) decreases imports of shirts into Canada.
E) all of the above.

20) Suppose initially Canada has all its international payments accounts in balance (no surplus or deficit). Then Canadian firms increase the amount they export to Japan, and the Japanese finance the increase by borrowing from Canada. In Canada everything else remaining the same there will now be a

A) current account deficit and capital account deficit.
B) current account deficit and capital account surplus.
C) current account surplus and capital account deficit.
D) current account deficit and capital account balance.
E) current account surplus and capital account surplus.

Answer Key
Testname: 1022B003FEREVIEWAPR12

1) C
2) E
3) B
4) E
5) D
6) E
7) A
8) E
9) B
10) D
11) E
12) A
13) E
14) B
15) B
16) A
17) C
18) A
19) E
20) C