

Economics 140, Winter 2015
Practice Questions for Midterm Examination I

- 1) Which one of the following people would be counted as unemployed in Canada?
- A. Simone is currently working but expects to be laid off by the end of the month, before next month's survey can be completed.
 - B. Ron has quit looking because he believes that there is no work available for him.
 - C. Rebekah is a recent graduate looking for work.
 - D. Ruth is a 14-year-old student and has been looking for an after-school job every day for the past month.
 - E. Sarah has been looking for a job but is taking a month-long break from the job-seeking effort due to her lack of skills.
- 2) Counting involuntary part-time workers as unemployed would
- A. raise the full employment rate.
 - B. raise the measured unemployment rate.
 - C. not change the actual unemployment rate.
 - D. lower the measured unemployment rate.
 - E. raise the natural unemployment rate.
- 3) The labour force participation rate is
- A. the percentage of the labour force who are employed.
 - B. the percentage of the working-age population who are unemployed or employed.
 - C. the percentage of the working-age population who are employed.
 - D. the percentage of the labour force who are unemployed or employed.
 - E. none of the above.
- 4) In a recession, typically
- A. unemployment rises.
 - B. the employment-to-population ratio decreases.
 - C. the employment-to-population rate rises.
 - D. the labour force participation rate rises.
 - E. both A and B are correct.
- 5) If the labor force participation rate is rising and the working-age population is not changing, then the
- A. size of the labor force is falling.
 - B. number of employed people must be increasing.
 - C. number of unemployed people is rising and the size of the labor force is falling.
 - D. number of unemployed people is falling and the size of the labor force is rising.
 - E. size of the labor force is rising.

6) In a country with a working-age population of 30 million, 18 million are employed, 2 million are unemployed, and 2 million of the employed are working part-time, half of whom wish to work full-time. If 1 million of those unemployed are cyclically unemployed, what is the natural unemployment rate?

- A. 6.7 percent
- B. 11.1 percent
- C. 5 percent
- D. 5.6 percent
- E. none of the above

7) If the economy is at full employment, then

- A. all unemployment arises from normal frictions and/or structural change.
- B. the entire labour force is employed.
- C. the entire population is employed.
- D. the only unemployment is frictional unemployment plus discouraged workers.
- E. the unemployment rate is less than 3 percent.

8) If the number of discouraged workers decreases because many of them start to look for work, everything else remaining the same, then the

- A. unemployment rate will increase.
- B. employment-to-population ratio will decrease.
- C. labour force participation rate will increase.
- D. labour force participation rate will decrease.
- E. both A and C.

9) If the economy is at full employment,

- A. the only unemployment is frictional unemployment plus discouraged workers.
- B. the entire labor force is employed.
- C. all unemployment is cyclical and/or structural.
- D. real GDP equals potential GDP.
- E. the entire population is employed.

10) The reference base period is 2002. A consumer price index of 122 in 2009 means that

- A. prices of consumer goods have gone up by a factor of 12.2.
- B. the market basket of consumer goods that cost \$122 in 2002 can be purchased for \$100 in 2009.
- C. prices of consumer goods have more than doubled.
- D. if the price of a good was \$100 in 2002, its price in 2009 is \$122.
- E. the average of the prices paid by urban consumers for a fixed market basket of consumer goods and services was 22 percent higher in 2009 than it was on average during 2002.

- 11) If the CPI was 180 at the end of 2007, and 216 at the end of 2008, the inflation rate in 2008 was
- A. 216 percent.
 - B. 16.67 percent.
 - C. 18 percent.
 - D. 36 percent.
 - E. 20 percent.
- 12) The Consumer Price Index measures inflation by using
- A. all goods and services that are produced using a base-year basket.
 - B. only consumption goods and services purchased using a base-year basket.
 - C. only consumption goods and services purchased using a current-year basket.
 - D. all goods and services that are produced using a current-year basket.
 - E. A and D.
- 13) The technique used to calculate the CPI implicitly assumes that consumers buy
- A. relatively less of goods with relative prices that are decreasing.
 - B. goods and services whose quality improves at the rate of growth of real GDP.
 - C. relatively more of goods with relative prices that are increasing.
 - D. more computers and CD players and fewer black-and-white TVs.
 - E. the same relative quantities of goods as in a base year.
- 14) All of the following are possible sources of bias in using the Consumer Price Index to measure inflation *except*
- A. the introduction of new goods.
 - B. commodity substitution.
 - C. an increase in the cost of living
 - D. an improvement in the quality of goods.
 - E. Both C and D are exceptions.
- 15) In calculating GDP, economists use the value of final goods and services because
- A. final goods can be exported to other countries.
 - B. GDP is underestimated if intermediate goods are used instead.
 - C. by using final goods and services, they avoid double counting.
 - D. intermediate goods are imported from other countries.
 - E. none of the above.

16) SaskWidget produces plastic parts. At the beginning of the year, they held \$24 million worth of capital. At the end of the year, they held \$20 million worth of capital. One can conclude that

- A. net investment increased by \$4 million.
- B. depreciation equals \$4 million.
- C. gross investment increased by \$4 million.
- D. depreciation exceeded gross investment by \$4 million.
- E. gross investment decreased by \$4 million.

17) Which of the following would *not* be included in GDP for 2009?

- A. A car produced in 2008 and sold in 2009.
- B. The value of all cars produced in 2009.
- C. A car produced in 2009 and sold in 2010.
- D. A car produced in January of 2009 and sold in November of 2009.
- E. A car produced in 2009 and held in inventory until 2010.

18) Which one of the following would *not* be counted as part of this year's GDP?

- A. The purchase of a new personal computer that was produced in the current year.
- B. The purchase of a house that was produced in the current year.
- C. The government bond you buy for your newborn niece.
- D. The lumber you purchase when building bookshelves for your room.
- E. The purchase of wheat that was produced in the current year by a Saskatchewan farmer.

19) How much would the production of a kayak add to GDP if the shell costs \$250, the paint costs \$20, the finisher costs \$35, the manufacturer sold it to the dealer for \$500, and the dealer sold it to his customer for \$800?

- A. \$305.
- B. B. \$800.
- C. C. \$1,605.
- D. D. \$500.
- E. E. \$1,300.

Use the table below to answer the following questions.

Table 20.2.1
Data From Eastland

Wages, salaries, and supplementary labour income	800
Farmers' income	80
Government expenditures on goods and services	240
Depreciation	240
Business investment	400
Personal income taxes net of transfer payments	140
Corporate profits	80
Indirect taxes	120
Net exports	80
Consumption expenditure	640
Interest and miscellaneous investment income	100

20) Refer to Table 20.2.1. From the information given in the table, the value of gross domestic product is

- A. \$1,360.
- B. \$1,120.
- C. \$1,100.
- D. \$1,290.
- E. \$1,280.

21) Refer to Table 20.2.1. From the data in the table, what is the net investment in Eastland?

- A. -\$160.
- B. \$500.
- C. \$400.
- D. \$160.
- E. \$240.

22) Which one of the following is *not* an example of investment in the expenditure approach to measuring GDP? General Motors

- A. adds 500 new cars to inventories.
- B. buys shares in another company.
- C. builds another assembly plant.
- D. replaces some worn-out stamping machines.
- E. buys a new auto stamping machine.

23) Suppose in current dollar terms, GDP increased by approximately 7 percent between one period and the next, but real GDP fell by 2 percent. Which one of the following explanations is most likely?

- A. Prices increased by 9 percent.
- B. Prices fell by 2 percent.
- C. Prices increased by 7 percent.
- D. Prices fell by 9 percent.
- E. Output rose by 2 percent.

24) Suppose, between year 1 and year 2, the nominal GDP of an economy increased from \$1 billion to \$3 billion and that the appropriate index of prices increased from 100 in year 1 to 200 in year 2. GDP for year 2 in terms of year 1 prices would be

- A. \$1.5 billion.
- B. \$6 billion.
- C. \$4 billion.
- D. \$3 billion.
- E. \$2 billion.

25) Since non-market exchanges are excluded from measures of GDP, the GDP measure tends to

- A. be of little significance in determining the total production of an economy.
- B. place too much value on market transactions.
- C. overestimate the total production of an economy.
- D. underestimate the total production of an economy.
- E. be of little use to anyone but market economists.

Use the figure below to answer the following question.

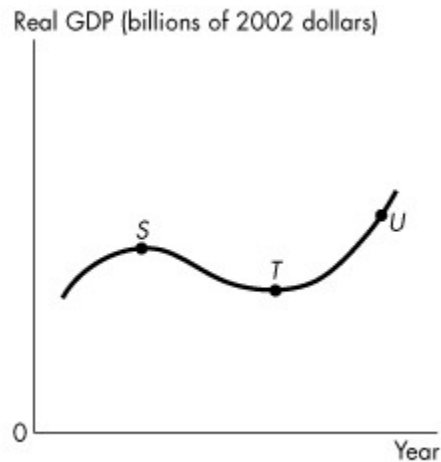


Figure 20.3.1

- 26) Refer to Figure 20.3.1. In the figure, the distance between points *S* and *T* represents
- A. a trough.
 - B. a recession.
 - C. a business cycle.
 - D. an expansion.
 - E. a peak.
- 27) Which of the following statements by politicians is talking about the business cycle?
- A. "Canadian unemployment is falling due to the upturn in the economy."
 - B. "Crime rates increase every spring as the school year ends."
 - C. "More capital investment will create more jobs."
 - D. "Business always rises just before Christmas."
 - E. "An average of 220,000 new jobs are created each year in Canada."
- 28) Disposable income is
- A. aggregate income plus transfer payments.
 - B. aggregate income minus transfer payments.
 - C. aggregate income minus taxes plus transfer payments.
 - D. aggregate income minus taxes.
 - E. used for consumption only.

- 29) If a household's disposable income increases from \$12,000 to \$22,000 and at the same time its consumption expenditure increases from \$4,000 to \$9,000, then
- A. the slope of the consumption function is 0.6.
 - B. the household is dissaving.
 - C. the slope of the consumption function is 0.5.
 - D. the marginal propensity to consume over this range is negative.
 - E. the marginal propensity to save over this range is negative.

Use the figure below to answer the following questions.

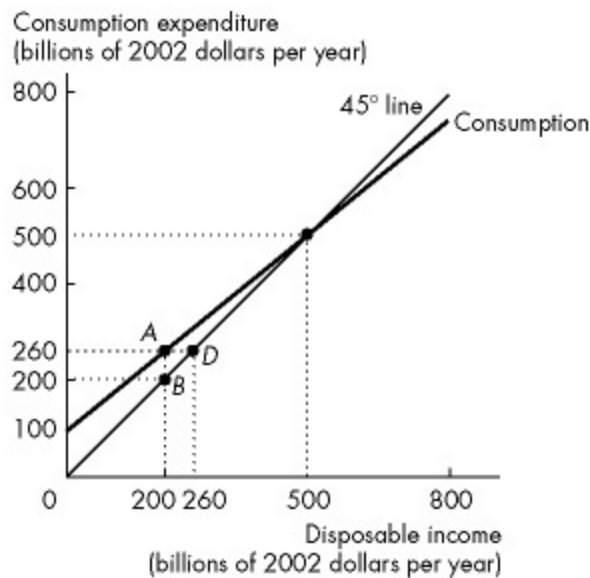


Figure 27.1.1

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

- 30) Refer to Figure 27.1.1. When disposable income is equal to \$200 billion, saving is
- A. zero.
 - B. \$150 billion.
 - C. \$200 billion.
 - D. -\$60 billion.
 - E. \$60 billion.

31) Refer to Figure 27.1.1. The marginal propensity to consume for this economy is

- A. 0.5.
- B. 0.8.
- C. 1.
- D. 0.6.
- E. 0.2.

Use the table below to answer the following question.

Table 27.1.1

The following table shows the relationship between consumption expenditure (C) and disposable income (YD) for a hypothetical economy.

YD (dollars)	C (dollars)
100	225
200	300
300	375
400	450
500	525
600	600

32) Refer to Table 27.1.1. The marginal propensity to save is

- A. 4.
- B. decreasing as YD increases.
- C. 0.75.
- D. 0.25.
- E. equal to zero when YD equals \$600.

33) Which of the following events would shift the consumption function upward?

- A. an increase in wealth
- B. a decrease in disposable income
- C. a decrease in expected future disposable income
- D. an increase in disposable income
- E. both A and D

- 34) Everything else remaining the same, if Canadians expect future disposable income to rise, then
- Canada's saving function shifts upward.
 - Canada's consumption function shifts downward.
 - a movement occurs down along Canada's consumption function.
 - a movement occurs up along Canada's consumption function.
 - Canada's consumption function shifts upward.
- 35) If real GDP is \$3 billion and aggregate planned expenditure is \$3.5 billion, then inventories
- decrease and production increases.
 - increase and production decreases.
 - increase and productions increases.
 - remain the same and production decreases.
 - decrease and production decreases.

Use the figure below to answer the following questions.

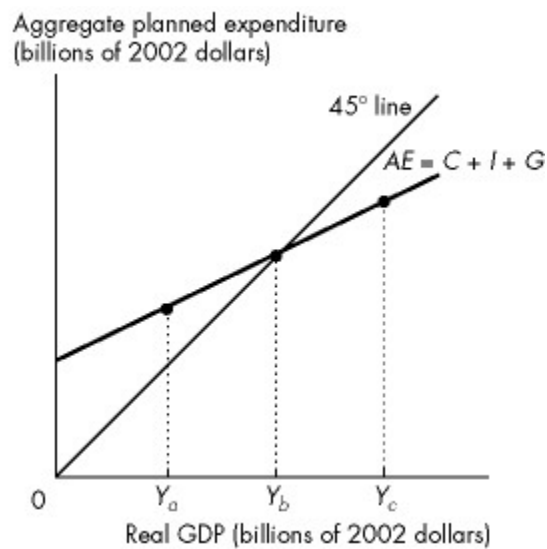


Figure 27.2.1

There are no exports or imports in this economy.

- 36) Refer to Figure 27.2.1. Equilibrium real GDP
- is equal to Y_c .
 - is decreasing.
 - is equal to Y_a .
 - is equal to Y_b .
 - can be any of Y_a , Y_b , or Y_c depending on what is happening to inventories.

- 37) Refer to Figure 27.2.1. When real GDP is equal to Y_a , then aggregate planned expenditure
- A. is equal to real GDP and real GDP neither increases nor decreases.
 - B. is less than real GDP and real GDP decreases.
 - C. exceeds real GDP and real GDP increases.
 - D. exceeds real GDP and real GDP decreases.
 - E. is less than real GDP and real GDP increases.

Use the figure below to answer the following questions.

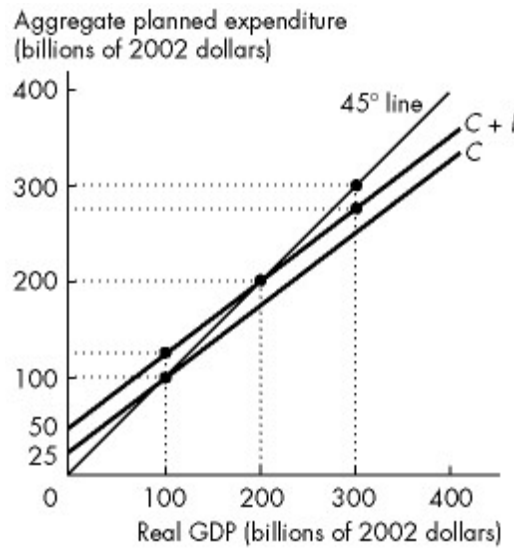


Figure 27.2.2

The economy depicted does *not* engage in international trade and has no government. Planned aggregate expenditure (AE) is equal to the sum of consumption expenditure (C) and investment (I).

- 38) Refer to Figure 27.2.2. Investment is
- A. increasing as real GDP increases.
 - B. \$50 billion.
 - C. \$100 billion.
 - D. \$25 billion.
 - E. \$75 billion.

- 39) Refer to Figure 27.2.2. When real GDP is \$100 billion,
- A. aggregate planned expenditure is greater than real GDP, and firms decrease production.
 - B. real GDP is greater than aggregate planned expenditure, and firms decrease production.
 - C. aggregate planned expenditure equal real GDP, and the economy is in equilibrium.
 - D. real GDP is less than aggregate planned expenditure, and firms increase production.
 - E. aggregate planned expenditure is less than real GDP, and firms increase production.
- 40) As real GDP decreases
- A. exports increase.
 - B. induced consumption decreases.
 - C. imports increase.
 - D. induced consumption increases.
 - E. planned investment increases.
- 41) Which one of the following will lead to an increase in the slope of the *AE* function?
- A. an increase in the marginal propensity to save
 - B. a decrease in the marginal propensity to save
 - C. an increase in the marginal tax rate
 - D. a decrease in the marginal propensity to consume
 - E. an increase in the marginal propensity to import
- 42) All else constant, a decrease in the income tax rate will result in
- A. a movement down along the aggregate expenditure curve.
 - B. an upward shift of the *AE* curve with no change in its slope.
 - C. an *AE* curve with a steeper slope.
 - D. a downward shift of the *AE* curve with no change in its slope.
 - E. a decrease in the consumption expenditure.
- 43) Everything else remaining the same, which one of the following would increase equilibrium real GDP?
- A. a decrease in investment
 - B. a decrease in exports
 - C. an increase in exports
 - D. an increase in saving
 - E. an increase in taxes

Use the figure below to answer the following question(s).

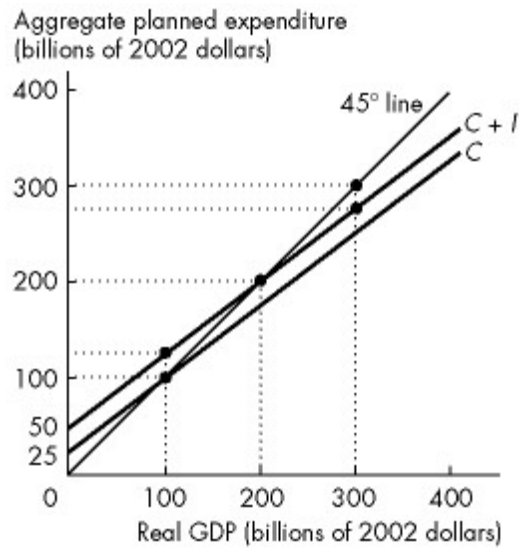


Figure 27.3.1

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).

44) Refer to Figure 27.3.1. The slope of the AE curve is

- A. 0.75.
- B. 1.33.
- C. 0.50.
- D. 0.67.
- E. 0.25.

45) Refer to Figure 27.3.1. If investment increases by \$25 billion, then real GDP increases by

- A. \$25 billion.
- B. \$75 billion.
- C. \$125 billion.
- D. \$50 billion.
- E. \$100 billion.

- 46) As the aggregate expenditure curve becomes steeper, the value of the multiplier becomes
- A. smaller.
 - B. greater than 1.
 - C. negative.
 - D. larger.
 - E. equal to the marginal propensity to save.
- 47) If investment increases by \$200, and as a result income increases by \$800, then the
- A. multiplier is $1/4$.
 - B. slope of the AE curve is $1/4$.
 - C. slope of the AE curve is 0.75 .
 - D. multiplier is 3.
 - E. none of the above.

Use the information below to answer the following questions.

Fact 27.5.2

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

- 48) Refer to Fact 27.5.2. What is the equation for the aggregate expenditure curve for this economy?
- A. $AE = 55 + 0.9Y$
 - B. $AE = 55 + 0.7Y$
 - C. $AE = 55 + 0.5Y$
 - D. $AE = 45 - 0.5Y$
 - E. $AE = 35 + 0.5Y$
- 49) Refer to Fact 27.5.2. What is equilibrium real GDP for this economy?
- A. 70
 - B. 110
 - C. 27.5
 - D. 550
 - E. 55

50) Refer to Fact 27.5.2. What is consumption expenditure in equilibrium in this economy?

- A. 77
- B. 53.5
- C. 62
- D. 35.25
- E. 92