

SLG Mock Final – For Practice ONLY

ECON 1100 – Introduction to Macroeconomics

Fall 2014

FORMAT:

MULTIPLE CHOICE.....109

IMPORTANT:

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

- 1• Complete the midterm in 1 hour (the real exam is 80 questions and 2 hours long)
- 2• Work on your own.
- 3• Keep your notes and textbook closed.
- 4• Attempt every question.

After the 1 hour 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 next week.

The purpose of this mock midterm 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 midterm as a *learning tool* in preparation for the actual midterm.

GOOD LUCK!

1. Which of the following would not promote economic growth within a society?
 - a. Increasing the skill level of the workforce.
 - b. An increase in technological expertise.
 - c. **More people looking for jobs than jobs available.**
 - d. An increase in the stock of machines and productive equipment.

2. If a price index was 180 at the end of 1998, and 216 at the end of 1999, the rate of inflation for 1999 was
 - a. 18 percent
 - b. 16.67 percent
 - c. **20 percent**
 - d. 216 percent
 - e. 36 percent

3. A nation's real national income in a given year measures the
 - a. dollar income earned by the nation's producing sector
 - b. **value of national output produced by the economy, measure in constant dollars**
 - c. level of national income that is subject to taxation by the federal government
 - d. market value of national output produced by the economy
 - e. opportunity cost of the economy's national output

4. An upward trend in real national income is called
 - a. an inflationary boom
 - b. aggregate output
 - c. constant-dollar national income
 - d. potential national income
 - e. **economic growth**

5. A country's population is 30 million, and it has a labour force of 15 million people. Assuming it has 1.35 million unemployed, the country's unemployment rate is
 - a. 2.5 percent
 - b. 3.3 percent
 - c. 4.5 percent
 - d. 6.7 percent
 - e. **9.0 percent**

6. If an employer and employees enter into a wage contract specifying a wage increase of 8 percent but the price level rises by 11 percent over the course of the contract,
 - a. the employees' purchasing power will rise
 - b. **the employees' purchasing power will fall**
 - c. the employer will experience a greater fall in purchasing power than would have occurred if the price level had held steady
 - d. both employer and employees will benefit in increase purchasing power

7. A worker is considered unemployed if that worker

- a. does not have a job
 - b. **does not have a job, but is actively searching for one**
 - c. is collecting unemployment insurance
 - d. is not now working but has previously held a job
 - e. has not been employed for at least three consecutive months
8. A price index changes from 120 to 114 over a particular time period. The percentage change in the price level was
- a. 6%
 - b. **-5%**
 - c. 5%
 - d. -6%
 - e. -5.26%

Use the following table to answer question 3:

GOOD	Q purchased	Price/Unit 1977 (\$)	Price/Unit 1997 (\$)
Zaflings	100	2	10
Bluars	75	10	14
Widgets	50	4	2
Skylids	25	40	50

9. The table above shows the prices and quantities purchased of four different goods by the typical household in 1977 and 1997. Using 1977 as the base year, the value of the consumer price index in 1977 was:
- a. 200.
 - b. 175.
 - c. **100.**
 - d. Between 150 and 200.
10. Double counting can be avoided when computing GDP by:
- a. Simply deducting a double-counting factor from the GDP estimates
 - b. Adding the value of only the intermediate (non-final) goods and services produced.
 - c. **Adding only the value contributed (added) by firms at each stage of production.**
 - d. Including the value of all output produced in the economy.
11. Nominal GDP measures the value of current:
- a. **Output at current prices.**
 - b. Output when prices are held constant.
 - c. Income received by households.
 - d. Investment spending by firms.

12. _____ are domestically produced but sold abroad and considered as _____ in the expenditure on domestic output.
- Imports; reductions.
 - Imports; increases.
 - Exports; reductions.
 - Exports; increases.**
13. Real GDP is measured in _____ prices and nominal GDP is measured in _____ prices.
- Current; base year.
 - Base year; current.**
 - Current; current.
 - Base year; base year.
14. Assuming a nominal GDP of \$2 billion and a GDP deflator of 170, real GDP must be about:
- \$3.4 billion.
 - \$1.2 billion.**
 - \$0.3 billion.
 - \$3.7 billion.
15. If the GDP deflator was 105 in 2000 and 115 in 2001, the annual rate of inflation was:
- 10%
 - 15%
 - 9.5%**
 - 0.9%
16. Suppose a country produces apples and oranges. In Year 1 they produce 100 apples and 200 oranges. The price of apples is \$1.00 and the price of oranges is \$2.00. In Year 2 they produce 200 apples and 1000 oranges, and the price of apples has risen to \$1.50 and the price of oranges has risen to \$3.00. What is the inflation rate from Year 1 to Year 2 using Year 1 as the base year?
- 1.2%
 - 50%**
 - 5.4%
 - 50%
17. In a year, the following activities occur:
1. A gold mining company pays its workers \$100 000 to mine 100kg of gold. The gold is then sold to a jewelry manufacturer for \$250 000.
 2. The jewelry manufacturer pays its workers \$150 000 and sells necklaces for \$400 000.
- What is the economy's GDP?
- \$100 000
 - \$250 000**

- c. **\$400 000**
 - d. \$650 000
18. Suppose a country produces 6 cookies, 10 bicycles, 15 sweaters, and 10kg of steel (used to produce bicycles). The price of a cookie is \$1.00, bicycles are \$100.00, sweaters are \$20 and steel is \$50.00/kg. What is the country's GDP?
- a. \$1 306
 - b. \$2 444
 - c. \$1 000
 - d. **\$1 806**
19. All of the following are components of investment except:
- a. Increases in plant and equipment.
 - b. Inventory expansion.
 - c. Residential housing construction.
 - d. **Purchases of stocks and bonds.**
20. If the GDP deflator is 105, and nominal GDP is 150 000, what is real GDP?
- a. 150 000
 - b. 1 428.57
 - c. 15 000 000
 - d. **142 857**
21. Expansionary fiscal policy occurs :
- a. Decreases aggregate expenditure and equilibrium GDP.
 - b. **Occurs when the government cuts taxes and/or increases spending.**
 - c. Occurs when the government increases taxes and cuts spending.
 - d. Occurs when the government cuts taxes by less than it cuts spending.
22. At full employment there is no
- a. Natural unemployment
 - b. Unemployment
 - c. Cyclical unemployment
 - d. **Structural unemployment**
 - e. Frictional unemployment
23. Increased wealth
- a. Causes no change in consumption because consumption is a function of disposable income only
 - b. Causes no change in consumption because the increase is always expected
 - c. **Causes an upward shift in the consumption function**
 - d. Causes a shift along the consumption function
 - e. Only affects saving, no consumption

24. If a market basket of goods costs \$2000 in the base year and \$450 in the later year, the price index in the later year would be correctly expressed as
- 22.5**
 - 44.44
 - 300
 - 450
 - 250
25. Nominal GDP will increase
- only if the unemployment rate rises
 - only if the average level of prices rise
 - only if both the average level of prices rise, and the quantity of goods and services produced increases
 - if either the average level of prices rise or the quantity of goods and services produced increases**
 - only if the quantity of goods and services produced increases
26. Historically, nominal GDP has risen faster than real GDP because
- the general price level has risen**
 - the general price level has fallen
 - improvements in product quality have not been reflected in prices
 - exports have risen more rapidly than imports
 - imports have risen more rapidly than exports

The table below shows total output for an economy over 2 years.

Year	Money GDP (millions \$)	Implicit Deflator	Real GDP (millions \$)
1995	_____	105	760 000
1996	820 000	106	_____
1997	855 000	_____	8000

27. The inflation rate from 1996 to 1997 was:
- 2.00 percent
 - 1.90 percent
 - 1.87 percent
 - 0.94 percent**
 - 0.84 percent
28. When calculating GDP from the expenditure side, G comprises
- only expenditures made by the federal government
 - government expenditures less transfer payments**
 - only expenditures made on goods and not on services
 - only expenditures made by provincial governments in Canada
 - government expenditures plus transfer payments

29. Gross domestic product
- is equal to the market value of all final goods and services**
 - excludes direct taxes but includes capital consumption allowances
 - must equal gross national product since both include capital consumption allowances
 - includes replacement investment, which is measured by the level of capital consumption allowances.
30. The term 'investment' in macroeconomics means
- the total amount of capital goods in the country
 - the total amount of money invested in bonds and stocks
 - the same thing as profits
 - the production of goods not for immediate consumption use such as factories, machines, residential housing, and changes in inventories**
 - the production of all goods for immediate consumption
31. Disposable personal income is defined as
- always the same as gross personal income
 - income that is used only for consumption
 - personal income remaining after net income taxes**
 - exclusive of transfer payments such as unemployment insurance payments.
 - personal income minus capital consumption allowances
32. Transfer payments are not included in the government component in the calculation of GDP because
- they do not represent a payment for a good or a service**
 - they are not counted as income by any economic agent
 - they do not generate additional income in the economy
 - it is difficult to assess the market value of a transfer payment
 - they are small enough to ignore when computing the national accounts

Table 3:

1995	Price (\$)	Quantity
Good A	1.00	100 units
Good B	2.00	200 units
Good C	5.00	100 units

1996	Price (\$)	Quantity
Good A	2.00	120 units
Good B	3.00	200 units

33. Refer to Table 3. If all three goods in the table above constitute the market basket of a typical urban consumer, then the C.P.I. in 1996 was
- 102
 - 193
 - 179
 - 180**
 - 418
34. Higher interest rates
- increase every component of investment expenditure
 - reduce every component of investment expenditure**
 - reduce every component of investment expenditure except residential housing
 - reduce every component of investment expenditure except inventories
 - reduce every component of investment expenditure except plant and equipment
35. The real rate of interest is approximately equal to the
- nominal rate of interest minus the rate of inflation**
 - real rate of interest divided by the nominal rate of interest
 - the rate of inflation minus the real rate of interest
 - nominal rate of interest divided by the price level
 - nominal rate of interest plus the risk ratio
36. Statistics Canada reported that the CPI increased from 104.2 to 105.9 from 1995 to 1996. The rate of inflation during that one-year period was
- 1.7%
 - 5.9%
 - 4.2%
 - 1.63%**
 - None of the above
37. If employment in a country were 12 million and unemployment is 1 million, the unemployment rate is
- 113 million
 - 7.7%**
 - 8.3%
 - 9.1%
 - 12 million
38. The aggregate demand curve depicts the relationship between
- real income and real GDP
 - the average price level and nominal GDP
 - real aggregate expenditures and real GDP
 - the average price level and real GDP demanded**

- e. real prices and real GDP
39. Which of the following factors does not help explain why the aggregate demand curve has a negative slope? As the price level falls,
- a. the wealth of people holding a fixed quantity of money increases, causing them to expand their purchases
 - b. foreign consumers will have an incentive to purchase more of our exports
 - c. domestic consumers will have an incentive to substitute away from imports toward the cheaper domestic goods and services
 - d. people shift to consuming more goods in the present and less in the future
 - e. **consumers move down the demand curves of all goods and services sold in the economy, and thus down the aggregate demand curve as well**
40. The short-run aggregate supply (SAS) curve shows the relationship between the price level and the total
- a. investment that firms wish to make, with input prices given
 - b. investment that firms wish to make, as input prices vary
 - c. **output that firms wish to produce and sell, with input prices given**
 - d. output that firms wish to produce and sell, as input prices vary
 - e. wealth accumulated by households, with national income given
41. A rise in an input price like unit labour costs would be expected to create a new macroeconomic equilibrium, which in comparison to the original equilibrium has a price level that is
- a. higher and a real GDP that is higher
 - b. **higher and a real GDP that is lower**
 - c. higher and a real GDP that is the same
 - d. lower and a real GDP that is higher
 - e. lower and a real GDP that is lower
42. Suppose there is a rise in aggregate demand and, simultaneously, a rise in SAS. The result will be a
- a. **rise in real GDP but price level changes will be indeterminate**
 - b. rise in real GDP and a rise in the price level
 - c. rise in real GDP and a fall in the price level
 - d. an indeterminate change in real GDP and a rise in the price level
 - e. an indeterminate change in real GDP and a fall in the price level
43. Changes in national income in the short run
- a. are primarily supply determined
 - b. are primarily due to changes in factor productivity
 - c. must equal changes in its potential level according to the GDP Accounting Equation
 - d. **are primarily caused by changes in aggregate demand**
 - e. will reflect price and wage adjustments
44. Long-run increases in real GDP are usually associated with

- a. increases in the sizes of output gaps
 - b. **increases in potential GDP, with no change in the output gap**
 - c. decreases in factor utilization
 - d. increases in real interest rates
 - e. none of the above are correct
45. If the SAS is horizontal,
- a. **output can be increased at a constant price level**
 - b. any increase in AD will cause real national income and the price level to increase
 - c. output is constant but the price level is variable
 - d. the economy is most likely operating beyond its potential level of real national income
 - e. potential output varies in the short-run
46. An upward-sloping SAS curve indicates
- a. firms' willingness to supply more output if the output can be sold at higher prices
 - b. that expanding output means incurring higher unit costs and higher prices of output
 - c. that expanding output means higher factor prices and therefore higher output prices
 - d. that economies of scale must apply to a supply function
 - e. **a and b**
47. A rightward shift in the SAS curve is brought about by
- a. an increase in factor prices
 - b. decreases in productivity
 - c. **increases in productivity and/or decreases in factor prices**
 - d. decreases in factor supplies
 - e. increase in real wealth
48. As real GDP increases, the change in the price level will be greatest
- a. **if the SAS curve is relatively steep**
 - b. when the unemployment rate is high
 - c. when unit costs do not change
 - d. if the SAS curve is flat
 - e. both a and c
49. With a given aggregate demand curve, a shift in the SAS curve to the left will cause
- a. increases in real national income and the price level in the short run
 - b. **an increase in the price level but a decrease in real national income in the short run**
 - c. decrease in the price level but an increase in real national income
 - d. decrease in potential real national income
 - e. a movement down along an AD curve
50. The aggregate expenditure curve and the aggregate demand curve are

- a. linked because if the price level rises, the aggregate expenditure curve shifts down and the aggregate demand curve shifts leftward
 - b. **linked because if the price level rises, the aggregate expenditure curve shifts down and there is a movement left and up the aggregate demand curve**
 - c. linked because if the price level rises, the aggregate expenditure curve shifts down and there is a movement right and up the aggregate demand curve
 - d. the same curve, just with different names
 - e. not related at all
51. A fall in the price level will
- a. shift the AE curve down and decrease equilibrium expenditure and real GDP
 - b. shift the AE curve down and increase equilibrium expenditure and real GDP
 - c. **shift the AE curve up and increase equilibrium expenditure and real GDP**
 - d. have no impact on the AE curve
 - e. shift the AE curve up and decrease equilibrium expenditure and real GDP
52. Assuming a constant price level, an increase in autonomous consumption results in the AE curve shifting
- a. downward and the AD curve shifting to the left
 - b. downward and the AD curve shifting to the right
 - c. upward and the AD curve shifting to the left
 - d. **upward and the AD curve shifting to the right**
 - e. upward and a movement to the right along the AD curve
53. When national income exceeds desire aggregate expenditures, unplanned inventory _____ will induce firms to _____ the rate of output production.
- a. depletion; lower
 - b. depletion; raise
 - c. **build-up; lower**
 - d. build-up; raise
54. Increased wealth
- a. does not affect consumption because consumption is a function of disposable income only
 - b. does not affect consumption because the increase is always expected
 - c. **tends to lead, ceteris paribus, to an upward shift in the consumption function**
 - d. tends to lead, ceteris paribus, to a downward shift in the consumption function
 - e. only affects savings, not consumption
55. All other things being equal, an increase in the domestic price level will
- a. increase the value of real money balances and hence cause an upward shift in the consumption function
 - b. decrease the value of real money balances and hence cause an upward shift in the consumption function
 - c. cause exports to increase, thereby causing the net export function to shift downward

- d. **decrease the value of real wealth and cause the consumption and aggregate expenditure functions to shift downward**
 - e. cause input prices to fall
56. Ceteris paribus, an increase in desired investment expenditures will
- a. shift the AE curve upward
 - b. shift the AD curve to the right
 - c. cause the equilibrium levels of real national income and price to increase if the economy operates with a positively sloped SRAS curve
 - d. **all of the above**
 - e. none of the above
57. If a representative family's disposable income rose for \$40 000 per year to \$42 000 and their desired consumption expenditures rose from \$38 000 to \$39 000, it can be concluded that the
- a. average propensity to consume is 0.8
 - b. average propensity to save is 0.8
 - c. marginal propensity to consume is \$800
 - d. **marginal propensity to consume is 0.8**
 - e. marginal propensity to save is 0.8
58. A rise in the real rate of interest _____ the opportunity cost of holding an inventory of a given size, and thus _____ desired investment expenditure
- a. increases; increases
 - b. **Increase; decreases**
 - c. decreases; increases
 - d. decreases; decreases

DATA set 1: Consider the following information describing a closed economy with no government:

1. equilibrium condition is $Y = C + I$
2. $MPS = 0.25$
3. the autonomous part of C is \$30
4. investment is autonomous and equals \$40

59. Refer to DATA set 1: The equilibrium level of national income will be
- a. \$70
 - b. \$93.30
 - c. \$120
 - d. \$160
 - e. **\$280**
60. Refer to DATA set 1: At the equilibrium level of national income, consumption expenditure will be
- a. \$30
 - b. \$110
 - c. **\$240**

d. \$280

61. The larger the marginal propensity to spend, the

- a. larger the MPC
- b. smaller the MPS
- c. Smaller the multiplier
- d. **larger the multiplier**
- e. greater is investment

62. The multiplier is larger

- a. the higher the level of autonomous expenditures
- b. **the steeper the slope of the AE function**
- c. the flatter the slope of the AE function
- d. the lower the APC
- e. the lower the level of autonomous expenditures

DATA set 2: Assume the following economy.

- 1. $Y = C + I$
- 2. $C = 100 + 0.6U$
- 3. $I = 200$

63. Refer to DATA set 2: Equilibrium level of income in the table above will be

- a. **750**
- b. 300
- c. 1000
- d. 200
- e. 500

64. Refer to DATA set 2: The simple multiplier from above will be

- a. 6
- b. **2.5**
- c. 0.4
- d. 1.0

65. Refer to DATA set 2: If the marginal propensity to consume out of real GDP is 0.75, and the marginal propensity to import is 0.10, then the slope of the AE function is

- a. 0.45
- b. 0.15
- c. 0.85
- d. **0.65**
- e. 0.50

DATA set 3: The economy of Tinseltown has a consumption function of $C = 15 + 0.7Y$, investment equals 8, government expenditures equal to 12, exports equal to 20, and an import function $M = 0.2Y$.

66. Refer to DATA set 3: What is the equation for the aggregate expenditure for this economy?
- a. $AE = 45 - 0.5Y$
 - b. **$AE = 55 + 0.5Y$**
 - c. $AE = 55 + 0.9Y$
 - d. $AE = 55 + 0.7Y$
 - e. $AE = 35 + 0.5Y$
67. Refer to DATA set 3: What is the multiplier for this economy?
- a. 3.33
 - b. 0.5
 - c. 1
 - d. 10
 - e. **2**
68. Refer to DATA set 3: What is consumption in equilibrium in this economy?
- a. 62
 - b. 35.25
 - c. 77
 - d. **92**
 - e. 53.5
69. Refer to DATA set 3: What is the equilibrium real GDP for this economy?
- a. 70
 - b. 27.5
 - c. **110**
 - d. non calculable with the information given
 - e. 55
70. We have the following macro model: $C = 150 + 0.84Y$, $I = 400$, $G = 700$, $T = 0$, $X = 130$, $IM = 0.08Y$. The trade balance at equilibrium national income is a
- a. **deficit of 330**
 - b. deficit of 460
 - c. deficit of 504.8
 - d. surplus of 15.28
 - e. surplus of 125
71. If there is a downward shift in autonomous expenditure, the new AE function will be
- a. steeper than the old one
 - b. flatter than the old one
 - c. parallel to the old function and will be above it
 - d. **parallel to the old function and will be below it**
 - e. none of the above
72. Within an AD-SAS model, the simple multiplier can be measured by

- a. **the extent of the horizontal shift of the AD curve in response to a change in autonomous expenditure**
 - b. the extent of the vertical shift of the AD curve in response to a change in autonomous expenditure
 - c. the distance moved along the AD curve in response to a change in autonomous expenditure
 - d. the distance between initial equilibrium and the new intersection of AD and SAS in response to a change in autonomous expenditure
 - e. the ratio of the change in price to the change in autonomous expenditure
73. The marginal propensity to consume is expressed as
- a. the change in the consumption divided by the change in savings
 - b. the change in consumption divided by the total disposable income
 - c. **the change in consumption divided by the change in disposable income**
 - d. total consumption divided by the total disposable income
 - e. total consumption divided by the change in disposable income
74. Transfer payments affect aggregate expenditure
- a. Directly
 - b. **indirectly through disposable income**
 - c. through the 45 degree line
 - d. through net exports
 - e. through the government purchases curve
75. Public saving is equal to
- a. **Net tax revenues minus government expenditures**
 - b. Disposable income minus consumption expenditure
 - c. Government expenditures minus net tax revenues
 - d. Private saving plus government saving
 - e. $I + NX$
76. Which one of the following pairs of terms indicates the two types of fiscal policy?
- a. **discretionary, automatic**
 - b. automatic, federal
 - c. targeting, monetary
 - d. fiscal, monetary
 - e. taxes, transfer payments
77. When the budget balance is negative, we say that the budget is
- a. Balanced
 - b. in surplus
 - c. **in deficit**
 - d. imaginary
 - e. in debt

78. Which of the following statements is not true?
- Increasing G shifts the AD curve rightward
 - Decreasing G shifts the AD curve leftward
 - Increasing net taxes shifts the AD curve leftward
 - Increasing G and increasing net taxes cannot shift the AD curve**
 - Increasing transfer payments shifts the AD curve rightward
79. Currently, Canada's budget is
- Balance
 - in surplus**
 - in deficit
 - Shrinking
 - insignificant compared to military spending
80. The government expenditures multiplier can be written as
- $1/(1-MPC)$**
 - $-1/(1-MPC)$
 - $MPC-1$
 - $(1-MPC)/MPC$
 - $-MPC+1$
81. The government expenditures multiplier is _____ and the autonomous tax multiplier is _____.
- negative, positive
 - positive, negative**
 - negative, negative
 - positive, positive
 - none of the above
82. The autonomous tax multiplier is calculated by
- $(\text{Change in taxes})/(\text{Change in real GDP})$
 - $(\text{Change in nominal GDP})/(\text{Change in taxes})$
 - $(\text{Change in government spending})/(\text{Change in GDP})$
 - $(\text{Change in nominal GDP})/(\text{Change in real GDP})$
 - $(\text{Change in real GDP})/(\text{Change in taxes})$**
83. Which one of the following is not an automatic stabilizer?
- public works projects**
 - changes in unemployment payouts
 - induced taxes
 - imports
 - changes in welfare disbursements
84. If the target reserve ratio in the banking system is 10 percent, and there is no cash drain and all excess reserves are lent out, then a new deposit of \$1 will lead to an expansion of the money supply of

- a. 10 cents
 - b. \$20
 - c. **\$10**
 - d. \$1
 - e. \$1.10
85. Fiat money has value because it
- a. is fractionally backed by gold
 - b. has intrinsic value equal to its face value
 - c. can be manufactured at will by the issuing government
 - d. **is generally accepted**
 - e. is backed by gold
86. Which of the following are examples of the use of money as a medium of exchange?
- 1. Sue pays \$75 out of her savings account with her bank debit card to pay for a skirt
 - 2. Dave saves loonies in his sock drawer for a vacation
 - 3. The Corner Store pays Cindy her salary for last month with a \$1000 cheque
- a. 1 only
 - b. 2 only
 - c. 3 only
 - d. **1 and 3 only**
 - e. 2 and 3 only
87. A commercial bank's target reserve ratio is the
- a. **fraction of its deposit liabilities that it wishes to hold as reserves, either as cash or as deposits with the bank of Canada**
 - b. fraction of its deposit liabilities that is backed by gold
 - c. ratio of Canadian dollars to foreign currencies that the commercial banks hold on their books
 - d. ratio of chequable deposits to term deposits that the commercial banks hold on their books
 - e. fraction of its deposit liabilities that it actually holds as cash in its own vaults
88. Money serves all of the following functions in an economy except
- a. eliminate the necessity for a double coincidence of wants
 - b. **solve the problem of inflation**
 - c. solve the problem of trading indivisible commodities such as live animals
 - d. allow better use of specialization and division of labour
 - e. provide a convenient way for people to think about "value"
89. Following a new deposit of \$5000, a commercial bank will find itself having
- a. \$4000 of excess cash reserves if its target reserve ratio is 10 percent
 - b. **\$4000 of excess cash reserves if its target reserve ratio is 20 percent**
 - c. \$10 of excess cash reserves if its target reserve ratio is 100 percent

- d. no excess reserves if it has no target reserve ratio
 - e. \$5000 of excess cash reserves if its target reserve ratio is 20 percent
90. The opportunity cost to firms and households of holding money balances is
- a. zero, since all economic transactions require the use of money
 - b. **the forgone interest that could have been earned on other assets**
 - c. low when interest rates are high
 - d. the interest rate receive on chequing accounts
 - e. zero, since the Bank of Canada pays no interest for holding commercial bank reserves
91. Assuming a fixed target reserve ratio (v) of 10 percent in a banking system and no cash drain out of the banking system, a banking system that receives \$1.00 in new reserves can increase new deposits ultimately by
- a. **\$10, which is $1/v$ times \$1**
 - b. 10 cents, which is 10 percent of \$1
 - c. the ratio $1/(1-v)$, which in this case is approximately \$1.11
 - d. 1.10, which is $(1+v)$ times \$1.00
 - e. 1.00 times $1/1-z$
92. Money demand is a function of
- a. interest rates and consumption
 - b. liquidity and interest rates
 - c. **income and interest rates**
 - d. taxes, disposable income, and liquidity
 - e. interest rates and taxes
93. If demand for bonds (by the Bank of Canada) in the bond market increase, then the money supply curve in the money market
- a. does not shift – the MD curves shifts right
 - b. shifts leftward and causes a decrease in interest rates
 - c. **shifts rightward and causes a decrease in interest rates**
 - d. shifts rightward and increase the liquidity of money
 - e. shifts rightward and does not affect interest rates
94. As bond prices increase
- a. interest rates go up, and money supply goes down
 - b. interest rates go up, and money supply increases
 - c. interest rates decrease, and money supply decreases
 - d. interest rates remain constant, and money supply remains constant
 - e. **interest rates decrease, and money supply increases**
95. What is the sequence of events by which an inflationary gap is eliminated by the economy's adjustment mechanism?
- a. interest rates rise, investment falls, and the AD curve shifts leftward

- b. interest rates rise, investment falls, and aggregate expenditure increases
 - c. interest rates rise, investment rises, and aggregate expenditure increases
 - d. interest rates rise, investment falls, and the AD curve shifts rightward
 - e. **interest rates rise, investment falls, and we move leftward along the AD curve**
96. Which of the following is not a function of the Bank of Canada?
- a. Providing banking services for the federal government
 - b. Acting as a lender of last resort to the banks
 - c. Controlling the supply of money and credit
 - d. **Lending to business firms**
 - e. Supporting money markets
97. Open-market operations are
- a. **purchases and sales by the Bank of Canada of government securities in financial markets**
 - b. purchases and sales among the commercial banks of securities in financial markets
 - c. sales of government securities by chartered banks to their customers
 - d. total purchases and sales of government securities in the bond market
 - e. switching government deposits between the banks and the Bank of Canada
98. Which one of the following is not a policy instrument of the Bank of Canada?
- a. **Raising the tax rate on interest income received from government bonds**
 - b. buying bonds from the commercial banks
 - c. Switching government deposits between itself and the banking system
 - d. Sale of bonds to the commercial banks
 - e. Changes in the bank rate
99. If the Bank of Canada purchases bonds in the open market, it is likely that
- a. the price of bonds would fall and the interest rate would rise
 - b. both the price of bonds and the interest rate would rise
 - c. both the price of bonds and the interest rate would fall
 - d. **the price of bonds would rise and the interest rate would fall**
 - e. reserves in the banks would fall
101. If the Bank of Canada purchases government bonds in the open market
- a. **the aggregate demand curve will shift to the right**
 - b. the aggregate demand curve will shift to the left
 - c. the aggregate expenditure curve will shift downward and to the right
 - d. there will be a movement up the MEI curve
 - e. both b and c
102. Which of the following has been considered an intermediate target by the Bank of Canada?
- a. **the interest rate**
 - b. nominal GDP

- c. the price level
 - d. real GDP
 - e. the inflation rate
103. In an AD-SAS diagram, a recessionary gap is shown by
- a. the AD and SAS curves intersecting at an output level that is to the right of potential GDP
 - b. the SAS, AD, and LRAS curves intersecting at the same output level
 - c. **the AD and SAS curves intersecting at an output level that is to the left of potential GDP**
 - d. the horizontal distance between the AD and SAS curves for any price level
 - e. the vertical distance between the AD and SAS curves for any output level
104. If there is currently an inflationary gap, an appropriate fiscal policy would be to:
- a. **increase taxes**
 - b. increase government purchases of goods and services
 - c. decrease taxes
 - d. increase transfer payments
 - e. reduce the budget surplus
105. The appropriate fiscal policy to eliminate a recessionary gap would be:
- a. increasing taxes
 - b. **increasing government purchases (G)**
 - c. decreasing government transfer payments
 - d. increasing the budget surplus
 - e. decreasing government purchases (G)
106. Which of the following are potential limitations of discretionary fiscal policy?
- a. there may be long decision lags
 - b. the change in fiscal policy may overshoot its target because factor prices may be working simultaneously to eliminate the gap problem
 - c. private-sector decision makers may view the policy to be short-lived and hence they do not change their expenditure plans
 - d. **all of the above**
 - e. none of the above
107. Assuming private expenditure functions do not shift, a decrease in the government's budget surplus due to a discretionary fiscal policy change
- a. represents contractionary fiscal policy
 - b. would be an appropriate policy
 - c. **will shift the aggregate demand curve to the right**
 - d. will have no effect on aggregate demand
 - e. would not shift the budget surplus function

108. Suppose the initial nominal interest rate is 2% and the expected rate of inflation is 5%. What change in inflation expectations would bring about a nominal interest rate of 0%?

- a. 7%
- b. 2%
- c. Expectations do not change
- d. 0%
- e. -2%

109. The rate of inflation over the past year has been 4%. Today's price level is 156. What was the price level at the beginning of last year?

- a. **150**
- b. 152
- c. 100
- d. 160
- e. 162