PRINCIPLES OF MACROECONOMICS
ECONOMICS 1022B-001/003

Department of Economics
Western University

B. Hammond **REVIEW TEST** **April 2015**

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

Use the figure below to answer the following question.

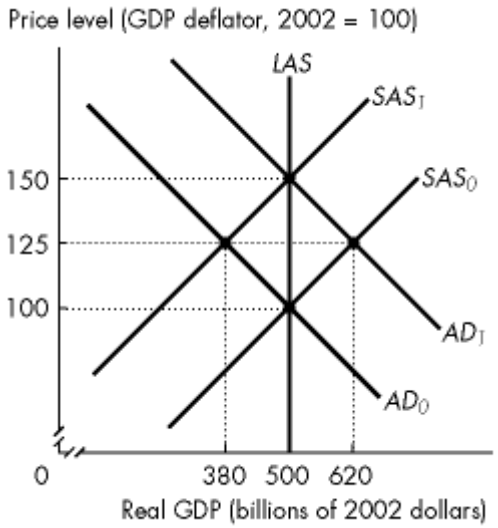


Figure 1

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 of oil
   B) a decrease in the money wage rate
   C) an increase in the price level
   D) an increase in the marginal product of labour
   E) an increase in the demand for money

Use the figure below to answer the following questions.

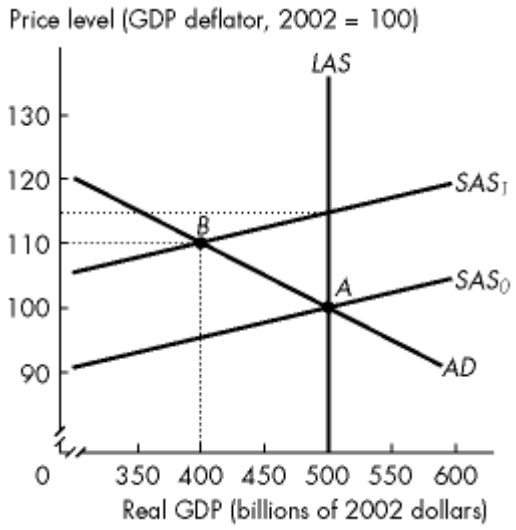


Figure 2

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 price level to rise to 110.
   B) a real GDP decrease of $50 billion.
   C) a 10 percent inflation.
   D) a 15 percent inflation.
   E) the real wage rate to fall by 10 percent.

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) depends on what happens to wage settlements.
   B) is greater than the expected inflation rate.
   C) cannot be determined without more information.
   D) is the same as the expected inflation rate.
   E) is less than the expected inflation rate.

4) Refer to Figure 2. If *SAS* shifts from SAS_0 to SAS_1, then
   A) unemployment will fall.
   B) inflation will be 10 percent.
   C) a recession will occur.
   D) inflation is expected to be 10 percent.
   E) B and C.

Use the figure below to answer the following question.

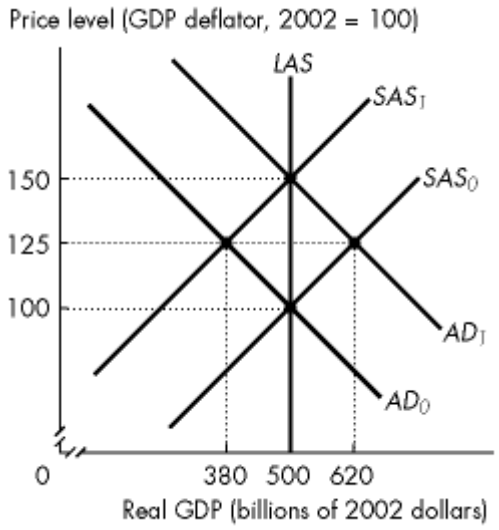


Figure 3

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 _____ and the new equilibrium price level is _____.
   A) $500 billion; 125
   B) $500 billion; 100
   C) $620 billion; 125
   D) $380 billion; 125
   E) $500 billion; 150

Use the figure below to answer the following question.

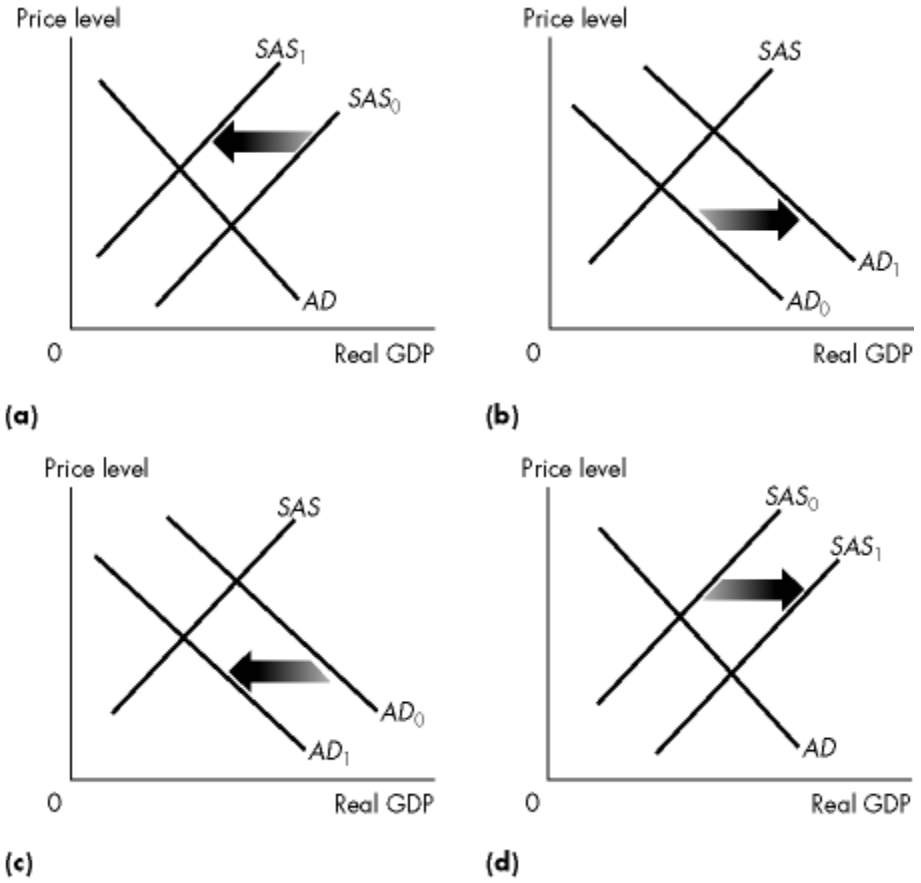


Figure 4

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 natural unemployment rate rises
   A) the short-run Phillips curve shifts rightward and the long-run Phillips curve does not change.
   B) the short-run and long-run Phillips curves both shift rightward.
   C) the long-run Phillips curve shifts leftward and the short-run Phillips curve does not change.
   D) the short-run and long-run Phillips curves both shift leftward.
   E) the long-run Phillips curve shifts rightward and the short-run Phillips curve does not change.

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

9) An increase in population results in
A) an upward shift in the production function.
B) a movement along the production function.
C) a leftward shift of the labour supply curve.
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 lower potential GDP per hour of labour.
B) lower level of labour employed and lower potential GDP per hour of labour.
C) lower level of labour employed and higher potential GDP per hour of labour.
D) constant level of labour employed and constant potential GDP per hour of labour.
E) higher 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.

Use the figure below to answer the following question.

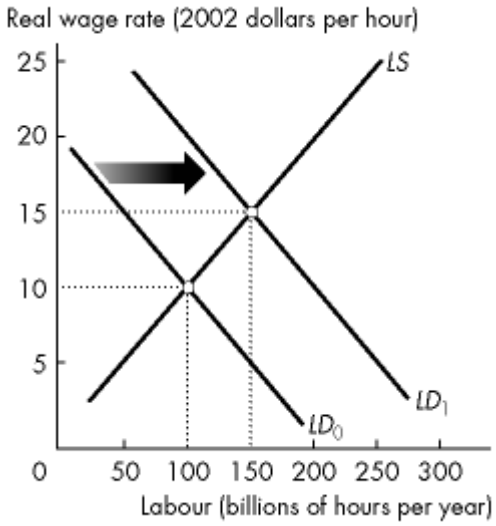


Figure 5

12) Refer to Figure 5. As a result of the rightward shift in the demand curve for labour from LD_0 to LD_1, the equilibrium level of employment _____, potential GDP _____, and potential GDP per hour of labour _____.
   A) decreases; decreases; decreases
   B) increases; increases; increases
   C) increases; decreases; increases
   D) increases; increases; decreases
   E) decreases; increases; decreases

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) 8 units of *X* and 16 units of *Y*
   B) 16 units of *X* and 8 units of *Y*
   C) 8 units of *X* and 32 units of *Y*
   D) 3 units of *X* and 5 units of *Y*
   E) 24 units of *X* and 40 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 an absolute advantage in the production of both goods.
B) Bob has a comparative advantage in cooking.
C) Since Mary is better at producing both goods, she should produce both.
D) Mary should specialize in cooking.
E) none of the above

15) In Portugal, the opportunity cost of a bale of wool is 3 bottles of wine. In England, the opportunity cost of 1 bottle of wine is 3 bales of wool. Given this information,
A) Portugal has a comparative advantage in wool production.
B) Portugal has an absolute advantage in wool production.
C) Portugal has a comparative advantage in wine production.
D) England has an absolute advantage in wine production.
E) no trade will occur.

Refer to the table below to answer the following question.

Table 1
Glazeland's Doughnut Market

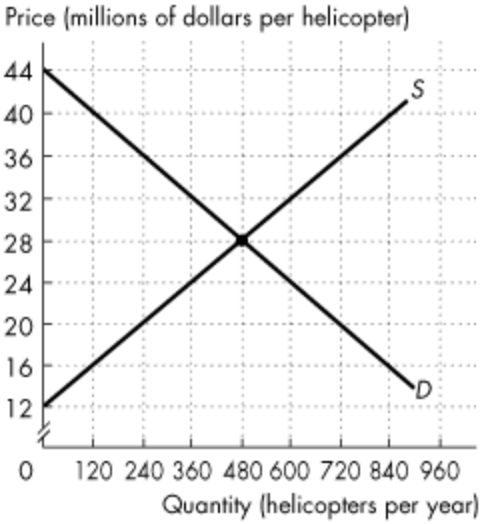
Price (dollars per doughnut)	Glazeland's Supply (millions)	Glazeland's Demand (millions)
0.20	1	10
0.30	2	8
0.40	3	6
0.50	4	4
0.60	5	2
0.70	6	0

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; export 3 million
B) 4 million; import 1 million
C) 3 million; import 3 million
D) 4 million; export 1 million
E) 6 million; export 3 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) lumber; wine
C) a good other than lumber or wine; wine
D) wine; lumber
E) wine; wine

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 6

18) In Figure 6, Canada _____ helicopters per year.

A) exports 720
B) imports 480
C) exports 240
D) exports 480
E) imports 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) decreases imports of shirts into Canada.
C) creates a social loss.
D) benefits Canadian shirt producers.
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 and financial account surplus and capital account surplus.
B) current and financial account deficit and capital account deficit.
C) current and financial account deficit and capital account balance.
D) current and financial account surplus and capital account deficit.
E) current and financial account deficit and capital account surplus.

Answer Key
Testname: 1022B001003FEREVIEWTEST

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