

Name: _____

Student Number: _____

(First Name)

(Last Name)

**ECONOMICS 1BB3
Introductory Macroeconomics
Spring 2014**

Test #2

VERSION 1

ANSWERS

Instructor: Aleksandra Gajic

Date: June 2, 2014

Time: 9-10:15am

Instructions:

This test paper contains 10 pages including the title page and 40 questions. You are responsible for ensuring that your copy of the paper is complete. Please bring any discrepancy to the attention of your invigilator.

Only the McMaster Standard (Casio - FX991) Calculator may be used.

This test paper must be returned along with the scan sheet.

Write your name and student number on the test paper and the scan sheet.

Bubble in your student number and version on the scan sheet.

YOU HAVE 75 MINUTES TO COMPLETE THE TEST.

OMR EXAMINATION - STUDENT INSTRUCTIONS

NOTE: IT IS YOUR RESPONSIBILITY TO ENSURE THAT THE ANSWER SHEET IS PROPERLY COMPLETED: YOUR EXAMINATION RESULT DEPENDS UPON PROPER ATTENTION TO THESE INSTRUCTIONS.

The scanner, which reads the sheets, senses the shaded areas by their non-reflection of light. A heavy mark must be made, completely filling the circular bubble, with a HB pencil. Marks made with a pen or felt-tip marker will **NOT** be sensed. Erasures must be through or the scanner may still sense a mark. Do **NOT** use correction fluid on the sheets. Do **NOT** put any unnecessary marks or writing on the sheets.

1. Print your name, student number, course name, section number and the date in the space provided at the top of Side 1 (red side) of the form.
2. Mark your student number in the space provided on the sheet on Side 1 and fill in the corresponding bubbles underneath.
3. Mark only ONE choice from the alternatives (1,2,3,4,5, or A,B,C,D,E) provided for each question. If there is a True/False question, enter response of 1 (or A) as True, and 2 (or B) as False. The question number is to the left of the bubbles. Make sure that the number of the question on the scan sheet is the same as the question number on the test paper.
4. Pay particular attention to the Marking Directions on the form.
5. Begin answering questions using the first set of bubbles, marked "1".

Instructions

Identify the choice that **best** completes the statement or answers the question.

1. Stoney 's Furniture Company relies on 5 workers working 8 hours to produce 80 tables. What is the productivity of these workers?
 - a. 2 tables per hour
 - b. 1 hour per table
 - c. 80 tables
 - d. 10 tables per day

2. Which of the following happens in a 100-percent-reserve banking system?
 - a. Banks can create money by issuing currency.
 - b. Banks can create money by lending out reserves.
 - c. The Bank of Canada can increase the money supply with open market sales.
 - d. Banks hold as many reserves as they hold deposits.

3. Which of the following best describes the effects of an open market operation undertaken by the Bank of Canada?
 - a. If the Bank of Canada purchases bonds in the open market, then the money supply shifts right and the price level increases.
 - b. If the Bank of Canada sells bonds in the open market, then money supply shifts right and the price level decreases.
 - c. If the Bank of Canada purchases bonds, then the money supply shifts left and the price level decreases.
 - d. If the Bank of Canada sells bonds, then the money supply shifts right and the price level decreases.

4. Suppose a bank has a 20 percent reserve ratio, \$2500 in deposits, and it loans out all it can, given the reserve ratio. Which of the following describes the bank's assets?
 - a. It has \$50 in reserves and \$\$2500 in loans.
 - b. It has \$50 in reserves and \$2450 in loans.
 - c. It has \$500 in reserves and \$2000 in loans.
 - d. It has \$500 in reserves and \$2500 in loans.

5. Which of the following would a macroeconomist consider as investment?
 - a. Ernest purchases a bond issued by Star-Kist.
 - b. Jerry purchases stock issued by IBM.
 - c. Alice builds a new restaurant.
 - d. Alice buys an amount of gold.

6. Which of the following best describes bank runs today?
 - a. Bank runs are uncommon because of the high required reserve ratio.
 - b. Bank runs are uncommon because of CDIC deposit insurance.
 - c. Bank runs are common because of the low required reserve ratio.
 - d. Bank runs are common because the CDIC is inefficient.

7. How is a nation's standard of living determined?
 - a. **by its productivity**
 - b. by its gross domestic product
 - c. by its national income
 - d. by how much it has relative to others

8. Which of the following people purchased the correct asset to meet their objective?
 - a. Michelle wanted to be a part owner of Mamma Rosa's Pizza, so she purchased a bond issued by Mamma Rosa's Pizza.
 - b. **Tim wanted a high return, even if it meant taking some risk, so he purchased stock issued by Specific Electric instead of bonds issued by Specific Electric.**
 - c. Jennifer wanted to buy equity in Honda, so she purchased bonds sold by Honda.
 - d. George wanted to lend money at a specified rate of interest to Research In Motion (RIM), so he purchased RIM stock.

9. What does the slope of the supply of loanable funds curve represent?
 - a. the positive relation between the real interest rate and investment
 - b. **the positive relation between the real interest rate and saving**
 - c. the negative relation between the real interest rate and investment
 - d. the negative relation between the real interest rate and saving

10. Ingrid takes a job in 1981 at a salary of \$10 000. By 2010, she has been promoted, with a salary of \$50 000. If the price index in 1981 is 50, and the price index in 2010 is 180, what is Ingrid's 2010 salary in 1981 dollars?
 - a. **\$13 889**
 - b. \$18 000
 - c. \$26 000
 - d. \$36 000

11. Which of the following characterizes commodity money?
 - a. It is money that is backed by gold.
 - b. It is the principal type of money in use today.
 - c. **It is money with intrinsic value.**
 - d. It is comprised of receipts created in international trade that are used as a medium of exchange.

12. Which of the following people would **NOT** be included in the labour force?
 - a. Jay, who is on temporary layoff
 - b. **Mike, who has retired and is not looking for work**
 - c. Jane, who does not have a job, but has applied for several in the last week
 - d. Joan, who has a job but is looking for a new one

13. Which of the following lists contains, in this order, natural resources, human capital, and physical capital?
 - a. **for a restaurant: the land where it stands; the things the chef learned at cooking school; the freezers where the steaks are kept**
 - b. for a furniture company: wood; the company cafeteria; saws
 - c. for a railroad: fuel; railroad engines; railroad tracks
 - d. for an oil company: the oil it brings to surface; the rigs; the refineries using its oil

14. Suppose that in a closed economy GDP is equal to 15,000, taxes are equal to 2500, consumption equals 7500, and government expenditures equal 3000. What is public saving?
- 600
 - 500**
 - 500
 - 600
15. Which of the following lists contains only actions that increase the money supply?
- raise the bank rate; make open market purchases
 - raise the bank rate; make open market sales
 - lower the bank rate; make open market purchases**
 - lower the bank rate; make open market sales

Table 6-2

year	price of pork	price of corn
2010	\$20	\$12
2011	\$25	\$18

16. The market basket used to calculate the CPI in Aquilonia is 4 loaves of bread, 6 litres of milk, 2 shirts, and 2 pairs of pants. In 2005 the price of bread was \$1.00 per loaf, the price of milk was \$1.50 per litre, the price of a shirt was \$6.00, and the price of a pair of pants was \$10.00. In 2006 the price of bread was \$1.75 per loaf, the price of milk was \$2.25 per litre, the price of a shirt was \$7.50, and the price of a pair of pants was \$13.00. What was the inflation rate, as measured by the CPI, for Aquilonia between 2005 and 2006?
- 20 percent
 - 24.4 percent
 - 30 percent
 - 36.67 percent**
17. Suppose Microsoft sells a bond. What is the company doing?
- borrowing directly from the public**
 - borrowing indirectly from the public
 - lending directly to the public
 - lending indirectly to the public
18. Suppose that in some country, neither textile workers nor shoemakers are unionized. If textile workers unionize and so are able to raise their wages, which of the following will most likely happen to shoemakers?
- The demand for shoemakers will rise, and their wages will rise.
 - The demand for shoemakers will fall, and their wages will fall.
 - The supply of shoemakers will rise, and their wages will fall.**
 - The supply of shoemakers will fall, and their wages will rise.
19. Last year, real GDP in Oceania was \$620 billion and the population was 2.3 million. The year before, real GDP was \$502.0 billion and the population was 2.0 million. What was the approximate growth rate of real GDP per person?
- 16 percent
 - 13 percent
 - 10 percent
 - 7 percent**

20. Which of the following best characterizes the consumer price index?
- It is a measure of a nation's standard of living.
 - It shows the increase in productivity.
 - It measures the increase in the prices of all final goods and services produced within the borders of a country.
 - It is an imperfect measure of the cost of living.**
21. The price of imported rain boots produced by a Canadian company operating in Japan increases. By itself, what effect will this change have on the Canadian GDP deflator and CPI?
- The GDP deflator and the CPI will both increase.
 - The GDP deflator will increase, and the CPI will be unaffected.
 - The GDP deflator and the CPI will both be unaffected.
 - The GDP deflator will be unaffected, and the CPI will increase.**
22. When the price level falls, what happens to the number of dollars needed to buy a representative basket of goods?
- It increases, so the value of money rises.
 - It increases, so the value of money falls.
 - It decreases, so the value of money rises.**
 - It decreases, so the value of money falls.
23. In a closed economy, what does national saving equal?
- income minus consumption
 - income minus the sum of consumption and government expenditures**
 - income minus consumption minus taxes
 - income minus government expenditures

Table 6-1

year	peaches	pecans
2010	\$14 per bushel	\$9 per bushel
2011	\$12 per bushel	\$14 per bushel

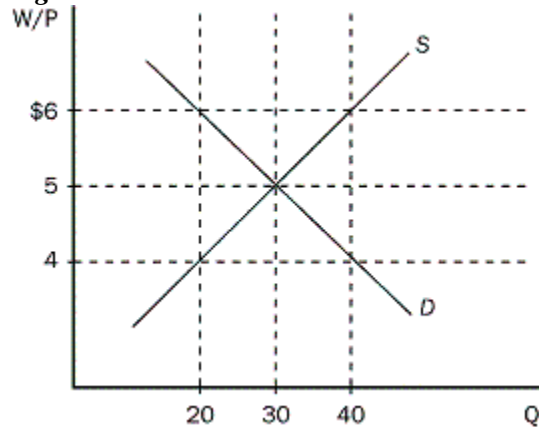
24. **Refer to Table 6-1.** Suppose that the typical consumer basket consists of 5 bushels of peaches and 10 bushels of pecans and that the base year is 2010. What is the consumer price index for 2010?
- 100**
 - 160
 - 200
 - There is insufficient information to answer this question.

Table 29-4 The following information pertains to the Bank of Edmonton.

Assets:		Liabilities:	
Reserves	\$100	Deposits	\$1000
Loans	\$900		

25. **Refer to Table 29-4.** Assume that the Bank of Edmonton is holding the required percent of deposits as reserves. Also, assume all other banks hold only the required percent of deposits as reserves, and that people hold only deposits and no currency. What is the money multiplier?
- 1
 - 5
 - 10
 - 15

Figure 28-1



26. **Refer to Figure 28-1.** If there was a minimum wage of \$4 and then the government instituted a minimum wage of \$5, what would happen to employment in this market?
- Unemployment would be unchanged.
 - Unemployment would drop by 10.
 - Unemployment would rise by 10.
 - Unemployment would rise by 20.
27. If Parliament increased the tax rate on interest income, which of the following would most likely happen to investment and saving?
- Investment would increase, and saving would decrease.
 - Investment would decrease, and saving would increase.
 - Investment and saving would both increase.
 - Investment and saving would both decrease.
28. What does the labour-force participation rate measure?
- the percentage of the total adult population that is in the labour force
 - the percentage of the total adult population that is employed
 - the percentage of the labour force that is employed
 - the percentage of the labour force that is either employed or unemployed

29. In 2000 in the United Kingdom, the adult population was about 46.5 million, the labour force participation rate was 63.5 percent, and the unemployment rate was 5.8 percent. What was the number of people unemployed?
- 3.7 million
 - 2.7 million
 - 1.7 million**
 - 0.7 million
30. Suppose that some people are counted as unemployed when, to maintain unemployment compensation, they search for work only at places where they are unlikely to be hired. If these individuals were counted as out of the labour force instead of as unemployed, how would the labour statistics change?
- The unemployment rate and the labour-force participation rate would be higher.
 - The unemployment rate and the labour-force participation rate would be lower.**
 - The unemployment rate would be lower and the labour-force participation rate would be higher.
 - The unemployment rate would be higher and the labour-force participation rate would be lower.

Table 28-1. This table shows the 2007 data for males and females aged 15 and over in the country of Dan.

Not in the Labour Force		Unemployed		Employed	
<i>Male</i>	<i>Female</i>	<i>Male</i>	<i>Female</i>	<i>Male</i>	<i>Female</i>
45 million	35 million	5 million	5 million	85 million	65 million

31. **Refer to Table 28-1.** What is the adult female labour-force participation rate in Dan?
- 4.76 percent
 - 37.03 percent
 - 38.10 percent
 - 66.67 percent**
32. You have two sets of estimates of national account numbers for a closed economy for next year. In the first set, government expenditures will be \$30 billion, transfer payments will be \$10 billion, and taxes will be \$45 billion. Under the second set, GDP will be \$200 billion, taxes will be \$50 billion, transfer payments will be \$20 billion, consumption will be \$120 billion, and investment will be \$40 billion. Based on these numbers, what are the respective estimated results?
- \$15 billion surplus and a \$10 billion surplus
 - \$15 billion surplus and a \$10 billion deficit
 - \$5 billion surplus and a \$10 billion surplus
 - \$5 billion surplus and a \$10 billion deficit**
33. If a production function has constant returns to scale, how can output be doubled?
- by doubling labour
 - by doubling any one of the inputs
 - by doubling all of the inputs**
 - by increasing all inputs by more than double

34. At one time, the country of Sylvania had no banks, but had currency of \$10 million. Then a banking system was established with a reserve requirement of 20 percent. The people of Sylvania now keep half their money in the form of currency and half in the form of bank deposits. If banks do not hold excess reserves, how much currency do the people of Sylvania now hold?
- \$2 million
 - \$5 million
 - \$8.33 million**
 - \$9.09 million
35. Suppose that lawn mowers are part of the market basket used to compute the CPI. Then suppose that the quality of lawn mowers improves while the price of lawn mowers stays the same. If Statistics Canada precisely adjusts the CPI for the improvement in quality, then, other things equal, what will happen?
- The CPI will rise.
 - The CPI will fall.**
 - The CPI will stay the same.
 - Lawn mowers will no longer be included in the market basket.
36. How does the risk of long-term bonds compare with short-term bonds?
- Long-term bonds are generally less risky than short-term bonds and so pay higher interest.
 - Long-term bonds are generally less risky than short-term bonds and so pay lower interest.
 - Long-term bonds are generally more risky than short-term bonds and so pay higher interest.**
 - Long-term bonds are generally more risky than short-term bonds and so pay lower interest.
37. Which of the following is an important difference between the GDP deflator and the consumer price index?
- The GDP deflator reflects the prices of goods and services bought by producers, whereas the consumer price index reflects the prices of goods and services bought by consumers.
 - The GDP deflator reflects the prices of all final goods and services produced domestically, whereas the consumer price index reflects the prices of some goods and services bought by consumers.**
 - The GDP deflator reflects the prices of all final goods and services produced by a nation's citizens, whereas the consumer price index reflects the prices of final goods and services bought by consumers.
 - The GDP deflator reflects the prices of all goods and services bought by producers and consumers, whereas the consumer price index reflects the prices of final goods and services bought by consumers.
38. Which of the following is the fundamental function of credit cards?
- Credit cards are used for deferring payments.**
 - Credit cards are used as store of value.
 - Credit cards are used for increasing the money supply.
 - Credit cards are used as investment assets.

39. Suppose that there are diminishing returns to capital. Suppose also that two countries are the same except one has less capital and so less real GDP per person than the other. Suppose that the saving rate in both countries increases from 5 percent to 6 percent. Which of the following would we expect over the next ten years?
- The growth rate will not change in either country.
 - The country with less capital will grow faster.**
 - The country with more capital will grow faster.
 - Both countries will grow at the same rate.
40. Samantha, the CEO of a corporation operating in Uganda, decides to raise the wages of her workers, even though she faces an excess supply of labour. Which of the following is an expected result from her decision?
- It will increase productivity, according to the efficiency wage theory.**
 - It will help eliminate the excess supply of labour if she raises it sufficiently.
 - It will cause unemployment to fall.
 - It will decrease profits, according to the efficiency wage theory.
41. **(BONUS)** According to the article, “Canadian Inflation Rate Rises to 1.5 % in January”, which components of the CPI contributed most to the rise in the CPI?
- Education, shelter and clothing/footwear.
 - Health/personal care and food.
 - Shelter, transportation and food.**
 - Education and household operations.