

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

- 1) The percentage change in real GDP in 2003 is 5%, and the percentage change in real GDP in 2004 is 2%. An economist would call this change in the growth rate
  - A) a growth recession.
  - B) a trough.
  - C) a recession.
  - D) a slowdown recession.
  - E) an expansion.
  
- 2) How does an unpredictable inflation cause problems?
  - A) It increases the variability of the business cycle.
  - B) Resources are diverted from productive activities to tax evasion.
  - C) The stock market falls in value.
  - D) The value of money starts rising.
  - E) Resources are diverted from productive activities to forecasting inflation.
  
- 3) Compared to the U.S. unemployment rate, the Canadian unemployment rate moves
  - A) with the U.S. rate, but at a higher level recently.
  - B) with the U.S. rate, and at the same level.
  - C) in the opposite direction to the U.S. rate.
  - D) independently of the U.S. rate.
  - E) with the U.S. rate, but at a lower level.
  
- 4) 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) \$500
  - B) \$1,605
  - C) \$305
  - D) \$800
  - E) \$1,300

Use the table below to answer the following question.

Table 1

Year	Nominal GDP	Real GDP	GDP Deflator (1996 = 100)
1996	125	125	100
2003	250	200	? 125
2004	275	? 225	122.22

- 5) Consider the data in Table 1. What is the growth rate of real GDP between 2003 and 2004?
- A) -2.8%
  - B) 12.5%
  - C) 25%
  - D) 100%
  - E) 22.2%

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

- 6) In Table 2, the base year is 2002. Real GDP in 2003, using chain-weighted output index method, is
- A) \$1950.5.
  - B) \$1250.
  - C) \$1665.
  - D) \$1100.
  - E) \$1707.75.
- 7) Investment is made up of
- A) all purchases of newly produced capital goods plus fixed investment minus inventory investment.
  - B) all purchases of newly produced capital goods.
  - C) all purchases of newly produced capital goods minus changes in business inventories.
  - D) all purchases of newly produced capital goods plus changes in business inventories plus residential construction.
  - E) all purchases of newly produced capital goods plus purchases of capital goods produced in previous years to replace any depreciated capital goods.

- 8) Saving can be measured as income minus
- A) net taxes plus subsidies.
  - B) transfer payments.
  - C) net taxes minus consumption expenditure.
  - D) consumption expenditure.
  - E) taxes.
- 9) Which one of the following is *not* a component of the income approach to GDP?
- A) Wages, salaries, and supplementary labour income.
  - B) Farmers' income.
  - C) Corporate profits.
  - D) Income of nonfarm unincorporated businesses.
  - E) Net exports.
- 10) Consider an economy starting from a position of full employment. Which one of the following changes does *not* occur as a result of a fall in aggregate demand?
- A) The level of real GDP decreases in the short run.
  - B) Resource prices will decrease in the long run, everything else remaining the same, shifting the short-run aggregate supply curve rightward.
  - C) The price level decreases.
  - D) A recessionary gap arises.
  - E) The long-run aggregate supply curve shifts leftward to create the new long-run equilibrium.
- 11) Persistent inflation is caused by
- A) shifts rightward in aggregate demand.
  - B) the tendency for long-run aggregate supply to increase faster than aggregate demand.
  - C) shifts rightward in short-run aggregate supply accompanied by shifts leftward in aggregate demand.
  - D) the tendency for aggregate demand to increase faster than long-run aggregate supply.
  - E) shifts rightward in short-run aggregate supply.
- 12) The economy cannot stay at a level of real GDP above long-run aggregate supply (LAS) because prices of productive resources will
- A) decrease, shifting SAS rightward.
  - B) increase, shifting LAS leftward.
  - C) decrease, shifting LAS rightward.
  - D) increase, shifting SAS rightward.
  - E) increase, shifting SAS leftward.

- 13) Suppose the multiplier is 2 and the short-run aggregate supply curve is positively sloped. If investment increases by \$10 billion equilibrium real GDP will
- A) increase by \$20 billion.
  - B) increase by less than \$20 billion.
  - C) decrease by less than \$20 billion.
  - D) be unaffected.
  - E) increase by more than \$20 billion.

Use the information below to answer the following questions.

Fact 1 The economy of Beverly Hills has a consumption function of  $C = 10 + 0.8Y$ , investment equal to 6, government expenditures equal to 10, exports equal to 10, and an import function of  $M = 0.1Y$ .

- 14) Consider Fact 1. What is consumption in equilibrium in this economy?
- A) 114.
  - B) 38.8.
  - C) 106.
  - D) 298.
  - E) None of the above.
- 15) Consider Fact 1. If autonomous consumption rises by 10, what is the new equilibrium real GDP for this economy?
- A) 230.
  - B) 460.
  - C) 120.
  - D) 153.33.
  - E) 86.67.

Use the figure below to answer the following question.

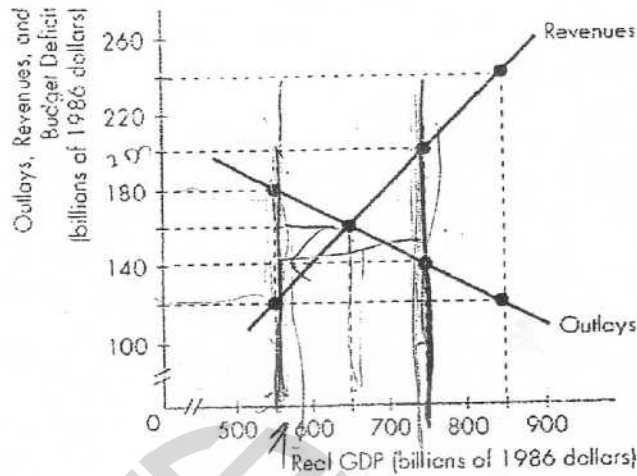


Figure 1

- 16) Consider Figure 1, which shows the outlays and revenues for the government of Urth. If potential GDP is \$750 billion, but current real GDP is \$550 billion, the cyclical deficit is
- A) a surplus of \$40 billion.
  - B) 0.
  - C) \$120 billion.
  - D) \$60 billion.
  - E) a surplus of \$60 billion.
- 17) Suppose that the marginal propensity to consume is 0.8, the marginal tax rate is 0.25, and the marginal propensity to import is 0.2. The slope of the  $AE$  function is
- A) 0.6.
  - B) 0.2.
  - C) 0.4.
  - D) 0.8.
  - E) 0.
- 18) Suppose that the marginal propensity to consume is 0.8, the marginal tax rate is 0.25, and the marginal propensity to import is 0.2. If the government raises autonomous taxes and transfers by \$100 million, the resulting change in real GDP will be
- A) +\$133.6 million.
  - B) 0.
  - C) +\$167 million.
  - D) -\$133.6 million.
  - E) -\$167 million.

- 19) Suppose that a customer comes in to the Bank of Bee and makes a withdrawal of \$600. The Bank of Bee and all other banks in the system have a desired reserve ratio of 15 percent. All else constant, how many deposits are destroyed after this withdrawal has worked its way through the banking system, including this deposit?
- A) \$600.
  - B) \$667.
  - C) \$6,000.
  - D) \$4,000.
  - E) \$900.
- 20) If the rate of interest is below the equilibrium rate of interest, which one of the following describes the process by which equilibrium is achieved in the money market?
- A) People buy bonds to get rid of their excess money, raising the price of bonds and raising the rate of interest.
  - B) People sell bonds to get rid of their excess money, lowering the price of bonds and raising the rate of interest.
  - C) People sell goods to get rid of their excess money, lowering the price of goods and raising the rate of interest.
  - D) People buy goods to get rid of their excess money, lowering the price of goods and raising the rate of interest.
  - E) People sell bonds to try and raise more money, lowering the price of bonds and raising the rate of interest.
- 21) Which one of the following would *not* be considered a depository institution?
- A) A trust company.
  - B) A credit union.
  - C) The Bank of Montreal.
  - D) A *caisse populaire*.
  - E) The Bank of Canada.

Use the tables below to answer the following questions.

Table 3 Chartered Banks' Balance Sheets

Assets		Liabilities
(a) Reserves	+200	
Securities	-200	

Assets		Liabilities
(b) Reserves	-200	
Securities	+200	

Assets		Liabilities
(c) Reserves	+200	Deposits +200

Assets		Liabilities
(d) Reserves	-200	Deposits -200

- 22) Which of the balance sheets in Table 3 shows the initial balance sheet effect of the Bank of Canada selling government securities to an individual?
- A) (a).  
 B) (b).  
 C) (c).  
 D) (d).  
 E) None of the above.
- 23) Which of the balance sheets in Table 3 shows the initial balance sheet effect of the Bank of Canada buying government securities from the chartered banks?
- A) (a).  
 B) (b).  
 C) (c).  
 D) (d).  
 E) None of the above.
- 24) In the early 1980s in Canada, the Bank of Canada
- A) defended the Canadian dollar by lowering interest rates.  
 B) stopped worries over the stock market crash by lowering interest rates.  
 C) helped end the inflation by rapidly raising interest rates.  
 D) helped end the recession early by rapidly raising interest rates.  
 E) helped end the recession early by rapidly lowering interest rates.

- 25) If the nominal interest rate is 12 percent, the inflation rate is 4 percent, and the tax rate is 25 percent, then the real after-tax interest rate is
- A) 2 percent.
  - B) 6 percent.
  - C) 0 percent.
  - D) 5 percent.
  - E) 1 percent.
- 26) To draw a long-run Phillips curve, which one of the following is held constant?
- A) The rate of inflation.
  - B) The level of real GDP.
  - C) The natural rate of unemployment.
  - D) The rate of employment.
  - E) The price level.
- 27) Suppose that Helmut borrows \$100 from Patricia for one semester. They agree upon a 5 percent rate of interest per semester and neither anticipates any inflation during the period. If there is a 5 percent inflation, then
- A) income is redistributed from Helmut to Patricia.
  - B) Helmut must pay Patricia \$110 at the end of the semester.
  - C) income is redistributed from Patricia to Helmut.
  - D) Helmut must pay Patricia only \$100 at the end of the semester.
  - E) Helmut must pay Patricia only \$9 at the end of the semester.
- 28) As a result of an increase in labour productivity,
- A) the production function shifts upward but the production possibility frontier remains unchanged.
  - B) the production function shifts upward, and there is a movement along the production possibility frontier.
  - C) the production possibility frontier shifts outward but the production function remains unchanged.
  - D) the production possibility frontier shifts outward, and there is a movement along the production function.
  - E) the production function shifts upward and the production possibility frontier shifts outward.
- 29) An increase in the capital stock will \_\_\_\_\_ the aggregate production function and \_\_\_\_\_ the supply of labour curve, everything else remaining the same.
- A) increase; increase
  - B) decrease; leave constant
  - C) increase; leave constant
  - D) leave constant; leave constant
  - E) decrease; increase

Use the table below to answer the following question.

Table 4

Real Wage Rate (\$ per hour)	Labour Demand (millions of workers)	Labour Supply (millions of workers)
6	20	12
7	18	14
8	16	16
9	14	18
10	12	20
11	10	22

- 30) Consider Table 4. Natural unemployment is 2 million workers. Suppose that labour demand falls by 4 million workers at each wage rate. In the long run, \_\_\_\_\_ million workers would be hired at a wage rate of \$ \_\_\_\_\_ per hour.
- A) 14; 9  
 B) 16; 7  
 C) 16; 6  
 D) 14; 7  
 E) 16; 8
- 31) Suppose that productivity has increased by 12 percent over the last year. Capital per hour of work increased by 3 percent as well. It seems likely that an increase in technology \_\_\_\_\_
- A) was responsible for 1/12 of the increase in productivity.  
 B) was responsible for 11/12 of the increase in productivity.  
 C) was responsible for 3/4 of the increase in productivity.  
 D) was responsible for all of the increase in productivity.  
 E) was responsible for 1/4 of the increase in productivity.
- 32) Suppose that productivity has increased by 18 percent over the last year. Capital per hour of work increased by 12 percent as well. It seems likely that the increase in capital \_\_\_\_\_
- A) was responsible for all of the increase in productivity.  
 B) was responsible for 2/9 of the increase in productivity.  
 C) was responsible for 2/3 of the increase in productivity.  
 D) was responsible for 1/3 of the increase in productivity.  
 E) was responsible for 7/9 of the increase in productivity.

- 33) In the neoclassical growth theory, if the real interest rate is higher than the target rate of return, then
- A) saving increases, the supply of capital increases, the real interest rate declines, and growth stops.
  - B) saving increases, the supply of capital increases, and the real interest rate remains constant, with no stoppage of growth.
  - C) population increases, labour supply increases, the real wage declines, and growth stops.
  - D) population increases, labour demand increases, and the real wage increases, with no stoppage of growth.
  - E) saving increases, the demand for capital rises, the real interest rate declines, and growth stops.
- 34) In the classical growth theory, if the real wage is higher than the subsistence real wage, then
- A) population increases, labour supply increases, the real wage declines, and growth stops.
  - B) saving increases, the supply of capital increases, and the real interest rate remains constant, with no stoppage of growth.
  - C) saving increases, the supply of capital increases, the real interest rate declines, and growth stops.
  - D) population increases, labour demand increases, and the real wage increases, with no stoppage of growth.
  - E) saving increases, the demand for capital rises, and the real interest rate declines, and growth stops.
- 35) Which of the following is a *prediction* of new growth theory?
- A) The marginal product of capital does not diminish as the amount of capital per hour of labour increases.
  - B) Technological advances are exogenous.
  - C) Capital per person can grow without automatically stopping.
  - D) The marginal product of capital diminishes as the amount of capital per hour of labour increases.
  - E) Both B and D!
- 36) Which of the following best describes the typical course of a new classical recession?
- A) An unexpected fall in aggregate demand leads to a fall in the price level, a rise in real wages, and therefore a temporary rise in unemployment, followed by a slow adjustment of money wages due to long-term contracts. X
  - B) Expectations turn pessimistic, aggregate demand falls sharply, and rigid money wages mean unemployment stays high until expectations turn optimistic. X
  - C) Technological change creates a temporary fall in productivity, lowering both the demand for capital and for labour, creating a fall in investment demand and therefore aggregate demand, as well as creating a fall in employment that lowers aggregate supply. X
  - D) An unexpected fall in aggregate demand leads to a fall in the price level, a rise in real wages, and therefore a temporary rise in unemployment, followed by a quick adjustment of money wages.
  - E) Money growth falls sharply, interest rates rise, the exchange rate rises, aggregate demand falls sharply, and sticky money wages mean unemployment rises temporarily until money wages can adjust.

- 37) Which of the following best describes the typical course of a Keynesian recession?
- A) Money growth falls sharply, interest rates rise, the exchange rate rises, aggregate demand falls sharply, and sticky money wages mean unemployment rises temporarily until money wages can adjust.
  - B) Technological change creates a temporary fall in productivity, lowering both the demand for capital and for labour, creating a fall in investment demand and therefore aggregate demand as well as creating a fall in employment that lowers aggregate supply.
  - C) An unexpected fall in aggregate demand leads to a fall in the price level, a rise in real wages, and therefore a temporary rise in unemployment, followed by a slow adjustment of money wages due to long-term contracts.
  - D) An unexpected fall in aggregate demand leads to a fall in the price level, a rise in real wages, and therefore a temporary rise in unemployment, followed by a quick adjustment of money wages.
  - E) Expectations turn pessimistic, aggregate demand falls sharply, and rigid money wages mean unemployment stays high until expectations turn optimistic.
- 38) Which of the following best describes the typical course of a monetarist recession?
- A) Money growth falls sharply, interest rates rise, the exchange rate rises, aggregate demand falls sharply, and sticky money wages mean unemployment rises temporarily until money wages can adjust.
  - B) An unexpected fall in aggregate demand leads to a fall in the price level, a rise in real wages, and therefore a temporary rise in unemployment, followed by a quick adjustment of money wages.
  - C) Expectations turn pessimistic, aggregate demand falls sharply, and rigid money wages mean unemployment stays high until expectations turn optimistic.
  - D) Technological change creates a temporary fall in productivity, lowering both the demand for capital and for labour, creating a fall in investment demand and therefore aggregate demand as well as creating a fall in employment that lowers aggregate supply.
  - E) An unexpected fall in aggregate demand leads to a fall in the price level, a rise in real wages, and therefore a temporary rise in unemployment, followed by a slow adjustment of money wages due to long-term contracts.

Use the table below to answer the following question.

Table 5

	Year 1	Year 2
Real GDP (billions of constant \$)	700	600
Price Level	125	135

- 39) Refer to Table 5. If real business cycle theory is true, what likely happened between year 1 and year 2 to aggregate demand and aggregate supply?
- A) Aggregate demand increased, short-run aggregate supply increased.
  - B) Aggregate demand increased, short-run aggregate supply decreased.
  - C) Aggregate demand decreased, short-run aggregate supply increased.
  - D) Aggregate demand increased, long-run aggregate supply decreased.
  - E) Aggregate demand increased, long-run aggregate supply increased.



Use the figure below to answer the following question.

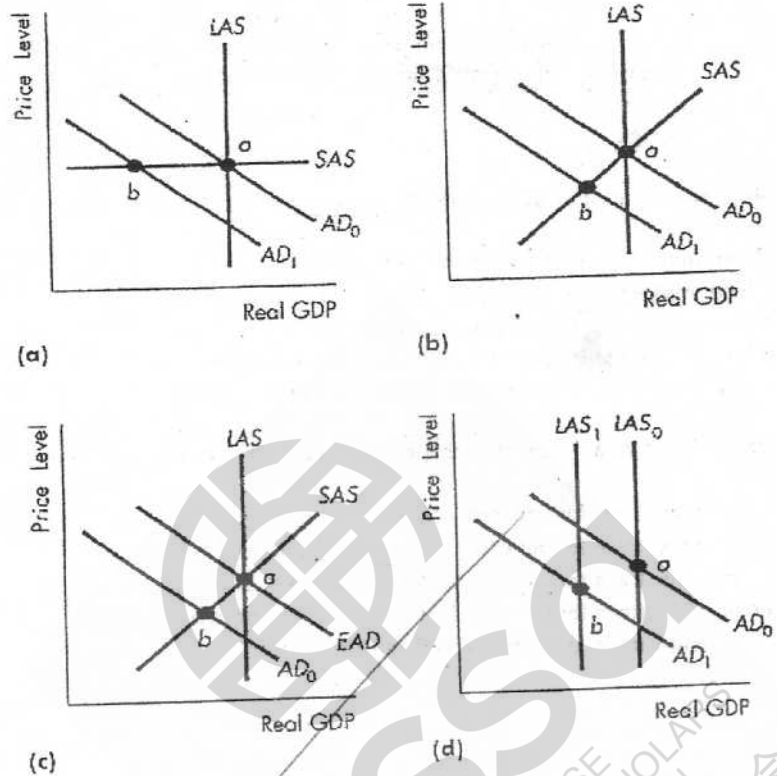


Figure 2

The original position of a curve is denoted by the subscript 0.

40) Consider Figure 2. Which of the graphs shows a Keynesian recession?

- A) (a)
- B) (b)
- C) (c)
- D) (d)
- E) None of the graphs

Use the table below to answer the following questions.

Table 6

Country	Units of Labour per Unit of Food, Output	Units of Labour per Unit of Cloth, Output
Home	2 1.33 3	6
Foreign	6	8

- 41) Refer to Table 6. Within what range must the terms of trade lie in order for both countries to gain from trade?
- A) 1 unit of food must trade for between 0.75 and 1.00 units of cloth.
  - B) 1 unit of food must trade for between 2.00 and 6.00 units of cloth.
  - C) 1 unit of food must trade for between 1.33 and 3.00 units of cloth.
  - D) 1 unit of food must trade for between 1.00 and 1.33 units of cloth.
  - E) 1 unit of food must trade for between 0.33 and 0.75 units of cloth.
- 42) Refer to Table 6. Within what range must the terms of trade lie in order for both countries to gain from trade?
- A) 1 unit of cloth must trade for between 1.00 and 1.33 units of food.
  - B) 1 unit of cloth must trade for between 0.33 and 1.00 units of food.
  - C) 1 unit of cloth must trade for between 6.00 and 8.00 units of food.
  - D) 1 unit of cloth must trade for between 1.33 and 3.00 units of food.
  - E) 1 unit of cloth must trade for between 3.00 and 6.00 units of food.

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Use the figure below to answer the following question.

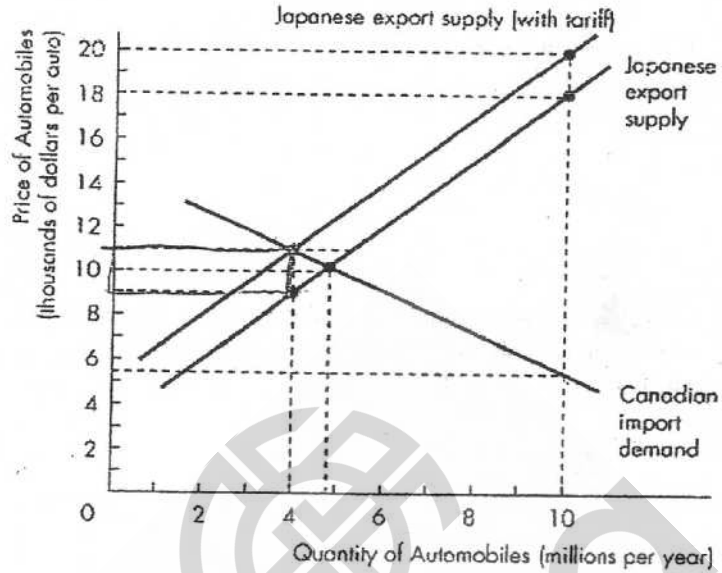


Figure 3

- 43) Refer to Figure 3. Suppose the Canadian government imposes a tariff on imported Japanese cars equal to \$2,000 per automobile. The price of imported automobiles to Canadian consumers will increase to
- A) \$11,000.
  - B) \$12,000.
  - C) \$10,000.
  - D) \$20,000.
  - E) \$9,000.
- 44) Which one of the following measures would allow the gap between the domestic price and the export price to be captured by foreign exporters?
- A) Voluntary export restraint.
  - B) Product standards regulation.
  - C) Tax on imports.
  - D) Quota.
  - E) Tariff.

Use the table below to answer the following question.

Table 7 International Trade in Donut Holes

International Price (dollars per 100 holes)	Glazeland's Export Supply of Holes (millions)	Snorfleland's Import Demand for Holes (millions)
0.50	1	10
0.75	2	8
1.00	3	6
1.25	4	4
1.50	5	2
1.75	6	0

- 45) Consider Table 7. From the initial free-trade equilibrium, Snorfleland's government imposes a tariff of \$0.25 per 100 donut holes imported. This will lead to a price of approximately \$ \_\_\_\_\_ per 100, with imports of approximately \_\_\_\_\_ million.
- A) 1.50; 2  
 B) 1.00; 3  
 C) 1.33; 3.25  
 D) 1.33; 4  
 E) 1.50; 5
- 46) Suppose in a country, government expenditures are \$400 billion, taxes (net of transfer payments) \$300 billion, saving \$300 billion, and investment \$250 billion. Net exports are in a
- A) surplus of \$50 billion.  
 B) deficit of \$150 billion.  
 C) deficit of \$50 billion.  
 D) deficit of \$250 billion.  
 E) surplus of \$150 billion.

Use the table below to answer the following questions.

Table 8

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

- 47) The country Mengia came into existence at the beginning of year 1. Given the information in Table 8, in year 4 Mengia is a
- A) net lender and a debtor nation.
  - B) net lender and neither a creditor nor a debtor nation.
  - C) net borrower and a debtor nation.
  - D) net borrower and a creditor nation.
  - E) net lender and a creditor nation.
- 48) If Mengia's official settlement balance was in deficit every year, for which year or years in Table 8 can you say *for sure* there was a current account surplus?
- A) Years 3 and 4.
  - B) Years 1 and 2.
  - C) Year 1 only.
  - D) Years 2 and 3.
  - E) Year 2 only.

Use the information below to answer the following question.

Fact 2 The citizens of Pioneerland, whose currency is the choo, conduct the following transactions in 1995:

Variable	Billions of choos
Imports of goods and services	+250
Exports of goods and services	+300
Borrowing from the rest of the world	+70
Lending to the rest of the world	-50
Increase in official holdings of foreign currency	+10

- 49) Consider Fact 2. What is the value of the capital account balance of payments?
- A) -10 billion choos.
  - B) 40 billion choos.
  - C) +50 billion choos.
  - D) +10 billion choos.
  - E) Indeterminate without knowledge of the value of lending to the rest of the world.

Use the figure below to answer the following question.

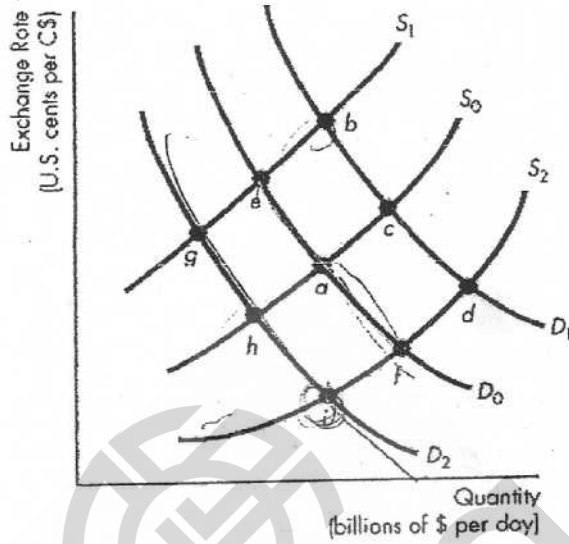


Figure 4

50) Consider Figure 4. The impact of an expansionary monetary policy would be shown as a movement from *a* to

- A) *g*.
- B) *d*.
- C) *b*.
- D) *h*.
- E) *i*.