

**PRINCIPLES OF MACROECONOMICS
ECONOMICS 1022B-001/003**

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ECONOMICS 1022B-001/003

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INSTRUCTIONS

1. The test starts at 1 pm and ends at 3 pm.
2. The multiple choice questions are to be answered on the Scantron answer form.
3. The test contains 13 pages and 50 questions.
4. There are no washroom breaks allowed during the test.
5. Only non-programmable calculators are allowed.
6. Only the following items are allowed at your desk:
 - a. Pencils
 - b. Erasers
 - c. Rulers
 - d. Calculator (without the case)
 - e. Student card (without the plastic wallet)

Drinks, food, pencil cases, calculator cases, the plastic wallet holding your student card and cell phones are not allowed. The possession of a cell phone at your desk may be considered an attempt to cheat and will be dealt with accordingly.

Further instructions are on the reverse of this page.

7. Use a **BLACK PENCIL** to complete your Scantron answer form.
 - i. Print your **NAME** and complete your signature.
 - ii. Enter your **STUDENT NUMBER**
 - iii. Enter your **SECTION NUMBER** – 001 or 003
8. Ensure that the code on your answer sheet matches the test version number in the top right hand corner of this page.
9. Do not ask questions during the test. If you have a concern about a question, note it on a piece of paper along with your name and student number and hand it in at the end of the test.
10. **WHEN YOU ARE FINISHED, HAND IN YOUR SCANTRON ANSWER SHEET – YOU MAY KEEP YOUR QUESTION PAPER.**

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

- 1) Gross domestic product is
- A) the market value of all the intermediate goods and services produced in a country during a given time period.
 - B) the market value of all goods and services produced in a country during a given time period.
 - C) the market value of all the final goods and services produced in a country during a given time period.
 - D) the final value of all goods produced in a country in a given time period.
 - E) the average value of output produced in a country in a given time period.

Use the information below to answer the following questions.

GDP = 200

Government spending = 50

Government borrowing = 10

Household's saving = 70

Business investment = 30

- 2) Refer the information above. How much are Net Exports? (It may help to draw a Circular Flow Diagram of Expenditures, Income and Financial Flows).
- A) 5 B) 15 C) 20 D) 30 E) 60
- 3) Refer to the information above. How much is Consumption Expenditure? (It may help to draw a Circular Flow Diagram of Expenditures, Income and Financial Flows).
- A) 200 B) 15 C) 40 D) 60 E) 90
- 4) The value of intermediate goods is not counted in GDP
- A) because of the tremendous difficulty in keeping track of all the intermediate goods produced in an economy as large as that of Canada.
 - B) because they are only sold in factor markets.
 - C) to keep from including goods that reduce society's welfare.
 - D) to avoid counting their value twice and overstating the value of GDP.
 - E) because they are not consumed in the current year.

- 5) A bakery uses flour to produce bread.
When calculating GDP, we include _____, because when we add the value of the flour to the value of the loaf of bread to calculate GDP, the result is _____.
- A) only the value of the bread sold in a store; double counting
 - B) both the value of the bread sold in a store and the value of the flour used to produce the bread; double counting
 - C) both the value of the bread sold in a store and the value of the flour used to produce the bread; the true value of the economy's output
 - D) only the value of the flour used to produce the bread; double counting
 - E) none of the above
- 6) Which one of the following would *not* be counted as part of this year's GDP?
- A) The government bond you buy for your newborn niece.
 - B) The purchase of a house that was produced in the current year.
 - C) The lumber you purchase when building bookshelves for your room.
 - D) The purchase of wheat that was produced in the current year by a Saskatchewan farmer.
 - E) The purchase of a new personal computer that was produced in the current year.
- 7) Which of the following adds to Canadian GDP?
- A) The ice cream I buy from my grocery store.
 - B) The production and sale of flour to a bakery.
 - C) The purchase of a CD made in China.
 - D) I shovel my own driveway.
 - E) I sell my used Honda.
- 8) Which of the following items would be included in a current measure of GDP?
- A) Your labour in fixing a leaky pipe under your sink.
 - B) The illegal sale of a bag of marijuana.
 - C) The value of safety on the streets of your community.
 - D) A professional gardener who regularly cuts your lawn.
 - E) All of the above.
- 9) The purchase of a new home is categorized as _____.
- A) investment
 - B) consumption expenditure and investment
 - C) investment only if the home owners take out a mortgage
 - D) consumption expenditure
 - E) consumption expenditure only if the home owners do not take out a mortgage

Use the table below to answer the following question.

Table 1

Government expenditures on goods and services	\$ 500
Wages, salaries, and supplementary labour income	2,000
Depreciation	400
Investment	400
Consumption expenditure	2,200
Net exports	-50
Indirect taxes	150
Statistical discrepancy	0

- 10) Refer to Table 1. Gross domestic product equals
 A) \$3,150. B) \$5,050. C) \$5,600. D) \$3,050. E) \$3,400.
- 11) If you want to investigate the claim that more goods and services were produced in the economy during 2011 than 2012, what should you look at?
 A) real GDP
 B) nominal GDP
 C) GDP calculated using the expenditure approach
 D) intermediate GDP
 E) either B or D

Use the table below to answer the following question.

Table 2

There are only two goods in this economy.

	Price		Quantity	
	Base Year (dollars)	Current Year (dollars)	Base Year	Current Year
Bread	1.00	2.10	70,000	75,000
Computer Disks	1.00	1.80	25,000	18,000

- 12) Refer to Table 2. Consider the data in this table. What is current nominal GDP?
 A) \$93,000
 B) \$189,900
 C) \$95,000
 D) \$192,000
 E) None of the above

- 13) A south sea island produces only coconuts.
 In 2005, the price of a coconut is \$2.00 and the quantity produced is 400.
 In 2012, the price of a coconut is \$1.50 and the quantity produced is 350.
 2005 is the reference base year.
 Real GDP in 2012 in terms of base-year prices is
 A) \$700. B) \$750. C) \$600. D) \$525. E) \$800.
- 14) 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 fell by 9 percent.
 B) Prices increased by 7 percent.
 C) Prices increased by 9 percent.
 D) Output rose by 2 percent.
 E) Prices fell by 2 percent.
- 15) The underground economy is any economic activity that
 A) is not taxed.
 B) produces intermediate goods or services.
 C) has negative social value.
 D) is conducted underground.
 E) is unreported or illegal.
- 16) Which of the following statements by politicians is talking about the business cycle?
 A) "An average of 220,000 new jobs are created each year in Canada."
 B) "Canadian unemployment is falling due to the upturn in the economy."
 C) "Business always rises just before Christmas."
 D) "Crime rates increase every spring as the school year ends."
 E) "More capital investment will create more jobs."

Use the table below to answer the following question.

Table 3

Item	2011 Quantity	2011 Price	2012 Quantity	2012 Price
CD players	10	\$100	15	\$110
bananas	50 bunches	\$2	100 bunches	\$3

- 17) Refer to Table 3. Chained-dollar real GDP in 2012 is
 A) \$1707.75. B) \$1665. C) \$1250. D) \$1100. E) \$1950.5.

- 18) If the CPI was 228 at the end of 2011 and 236 at the end of 2012, what was the inflation rate in 2012?
- A) 236 percent
 - B) 4 percent
 - C) 8 percent
 - D) 3.4 percent
 - E) 3.5 percent
- 19) The Consumer Price Index measures inflation by using
- A) only consumption goods and services purchased using a current-year basket.
 - B) only consumption goods and services purchased using a base-year basket.
 - C) all goods and services that are produced using a current-year basket.
 - D) all goods and services that are produced using a base-year basket.
 - E) A and D.
- 20) The reference base period is 2002. A consumer price index of 122 in 2012 means that
- A) prices of consumer goods have more than doubled.
 - B) the average of the prices paid by urban consumers for a fixed market basket of consumer goods and services was 22 percent higher in 2012 than it was on average during 2002.
 - C) prices of consumer goods have gone up by a factor of 12.2.
 - D) the market basket of consumer goods that cost \$122 in 2002 can be purchased for \$100 in 2012.
 - E) if the price of a good was \$100 in 2002, its price in 2012 is \$122.

Use the table below to answer the following question.

Table 4

Suppose a simple economy produces three goods only.
The price and output data for some selected years are shown below.

	Price (dollars)	Price (dollars)	Quantity (number)	Quantity (number)
	2002	2012	2002	2012
Pop	0.75	1.10	100	120
Crackers	1.25	2.10	300	280
Cucumbers	2.00	3.00	200	190

- 21) Refer to Table 4. The reference base period is 2002. the CPI in 2002 is
- A) 158.
 - B) 96.
 - C) 1,340.
 - D) 100.
 - E) 63.
- 22) The fixed basket of Econoland consists of 10 units of *A*, 20 units of *B*, and 30 units of *C*. Current prices are \$1 per unit of *A*, \$2 per unit of *B*, and \$3 per unit of *C*. Base year prices are \$1 for each unit of *A*, *B*, and *C*. What is the CPI in the current year?
- A) 43
 - B) 100
 - C) 140
 - D) 430
 - E) 233

- 23) Commodity substitution bias in the CPI refers to the fact that the CPI
- A) substitutes relative prices for absolute prices of goods.
 - B) takes into account the substitution of goods by consumers when relative prices change.
 - C) substitutes quality changes whenever they occur without taking account of the cost of the quality changes.
 - D) accounts for improved quality in price rises.
 - E) takes no account of the substitution of goods by consumers when relative prices change.
- 24) Choose the *incorrect* statement.
- A) The CPI basket is constantly updated to allow for the introduction of new goods.
 - B) When the quality of a good improves over time and as a result the price rises, the CPI counts the entire price rise as inflation and so overstates inflation.
 - C) The outlet substitution bias injects an upward bias into the CPI.
 - D) When relative prices change and people substitute to the lower priced good, the CPI ignores the substitution and the CPI overstates inflation.
 - E) All of the above statements are incorrect.
- 25) If the labour force participation rate is rising and the working-age population is not changing, then the
- A) number of unemployed people is rising and the size of the labour force is falling.
 - B) size of the labour force is rising.
 - C) number of employed people must be increasing.
 - D) number of unemployed people is falling and the size of the labour force is rising.
 - E) size of the labour force is falling.
- 26) Who of the following would be counted as unemployed in Canada?
- A) Caitlin, who is 14 years old, and looking for a babysitting job.
 - B) Vik, who has been staying at home watching "The Old and the Boring" soap opera, and not searching since he was laid off at the flour mill.
 - C) Emmanuel, who lost his job at the steel plant when an automated assembly line was introduced six months ago, and has been job searching every day.
 - D) Youngmin, who is a part-time hamburger flipper looking for a full-time job.
 - E) James, who is a full-time student looking for a part-time job.
- 27) Which one of the following people would be counted as unemployed in Canada?
- A) Ruth is a 14-year-old student and has been looking for an after-school job every day for the past month.
 - B) Simone is currently working but expects to be laid off by the end of the month, before next month's survey can be completed.
 - C) Rebekah is a recent graduate looking for work.
 - D) Ron has quit looking because he believes that there is no work available for him.
 - 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.

- 28) In a country with a working-age population of 22 million, 16 million are employed, 2 million are unemployed, and 1 million of the employed are working part-time, half of whom wish to work full-time. The employment-to-population ratio is
- A) 72.7 percent.
 - B) 57.5 percent.
 - C) 75.5 percent.
 - D) 65 percent.
 - E) none of the above.

Use the table below to answer the following question.

Table 5

This table shows the answers given by interviewees to the Labour Force Survey

Person A	Now that kids are in school full-time, this person is looking for work and has been interviewed for three jobs over the past 2 weeks.
Person B	This person has been laid off but expects to be called back in a few weeks, just as soon as the economy improves.
Person C	This person has just graduated from university and will start a new job in 8 weeks. In the meantime, this person is surveying local drinking establishments.
Person D	This person was laid off last year when new equipment at the plant reduced the number of jobs. Since his layoff, this person has been constantly job searching.
Person E	This economics graduate is working two nights a week at the 7-11, but wants full-time work as an economist.

- 29) In Table 5, which person is cyclically unemployed?
- A) A
 - B) B
 - C) C
 - D) D and B
 - E) A and C
- 30) 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.

- 31) Which one of the following people is frictionally unemployed? A steel worker who
- A) is laid off but expects to be called back soon.
 - B) loses her job because of technological change.
 - C) becomes discouraged and stops looking for a job.
 - D) gives up her job because she retires.
 - E) decides to leave the labour force and become a full-time ballet student.
- 32) Henelyn lost her job as a factory worker when she was replaced by a robotic machine. Now she is looking for a new job. Henelyn is
- A) structurally unemployed.
 - B) cyclically unemployed.
 - C) frictionally unemployed.
 - D) not unemployed.
 - E) none of the above.
- 33) Suppose that the following situation exists in the foreign exchange market: 1 Canadian dollar buys \$1.01 U.S., and 1 Canadian dollar buys 6.63 South African rand. How many U.S. dollars will one rand buy?
- A) \$6.56 B) \$0.17 C) \$0.15 D) \$6.63 E) \$1.01
- 34) The demand curve for dollars shifts rightward if
- A) Canadian interest rates rise.
 - B) the price of Canadian goods and services increases.
 - C) the expected future value of the dollar falls.
 - D) the Canadian exchange rate falls.
 - E) foreign interest rates rise.
- 35) Suppose you think that the Canadian dollar exchange rate will appreciate against the U.S. dollar over the next month. What should you do now in anticipation of profit?
- A) Buy Canadian dollars.
 - B) Sell Canadian dollars.
 - C) Buy U.S. dollars.
 - D) Sell U.S. dollars.
 - E) Do both A and D.
- 36) The Canadian exchange rate depreciates if
- A) prices increase in the United States and other countries but remain constant in Canada.
 - B) the U.S. interest rate rises.
 - C) the Canadian interest rate rises.
 - D) all of the above.
 - E) none of the above.

- 37) Suppose the exchange rate between the Canadian dollar and the British pound is 0.5 pounds per dollar. If a radio sells for 38 pounds in Britain and purchasing power parity holds, what is the dollar price of the radio?
- A) \$57 B) \$26 C) \$38 D) \$19 E) \$76
- 38) Suppose the interest rate in Canada falls and the interest rate in Japan remains the same. Interest rate parity implies that given equal risk
- A) Canadian financial investments are less profitable.
B) the inflation rate is higher in Japan.
C) Japanese financial investments are more profitable.
D) the yen is expected to appreciate against the dollar.
E) the yen is expected to depreciate against the dollar.
- 39) The supply curve of dollars shifts rightward if
- A) Canadian interest rates rise.
B) the Canadian exchange rate rises.
C) foreign interest rates rise.
D) the price of Canadian goods and services decreases.
E) none of the above.
- 40) If the exchange rate is higher than the Bank of Canada's target exchange rate, the Bank
- A) implements purchasing power parity.
B) implements interest rate parity.
C) sells dollars.
D) buys dollars.
E) none of the above.
- 41) An increase in the money wage rate shifts
- A) both *SAS* and *LAS* rightward.
B) both *SAS* and *LAS* leftward.
C) *LAS* rightward, but leaves *SAS* unchanged.
D) *SAS* rightward, but leaves *LAS* unchanged.
E) *SAS* leftward, but leaves *LAS* unchanged.
- 42) Which one of the following newspaper quotations describes a shift of only the *SAS* curve?
- A) "Recent higher wage settlements are expected to cause higher inflation this year."
B) "The recent tornadoes destroyed many factories in Calgary and Edmonton."
C) "The increase in consumer spending is expected to lead to inflation, without any increase in real GDP."
D) "Growth has been unusually high the last few years due to more women entering the work force."
E) "The decrease in consumer spending may lead to a recession."

Use the figure below to answer the following question.

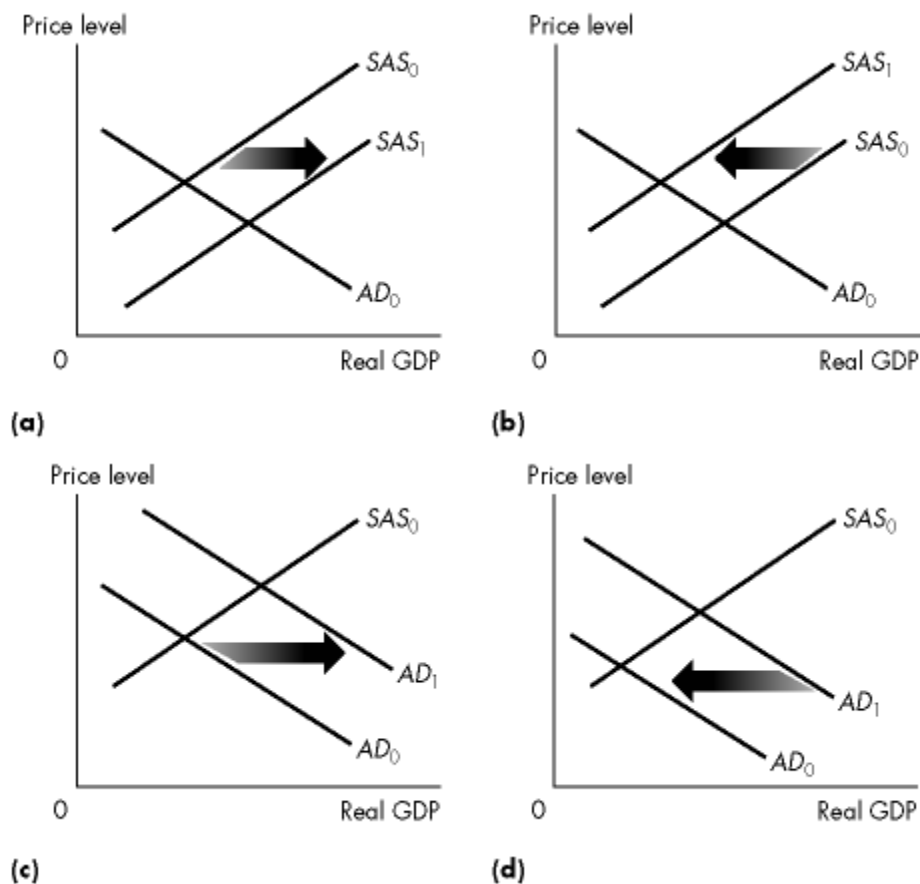


Figure 1

- 43) Refer to Figure 1. Which graph illustrates what happens when expected future income increases?
- (a)
 - (b)
 - (c)
 - (d)
 - None of the above.
- 44) Everything else remaining the same, an increase in foreign income
- creates a movement downward along Canada's aggregate demand curve.
 - decreases Canada's aggregate supply.
 - increases Canada's aggregate demand.
 - decreases Canada's aggregate demand.
 - increases Canada's aggregate supply.

- 45) An inflationary gap is the amount by which
- real GDP exceeds potential GDP.
 - supply must increase to achieve full employment at a given price level.
 - potential GDP exceeds real GDP.
 - the price level must adjust to achieve full employment.
 - demand must increase to achieve full employment at a given price level.

Use the figure below to answer the following question.

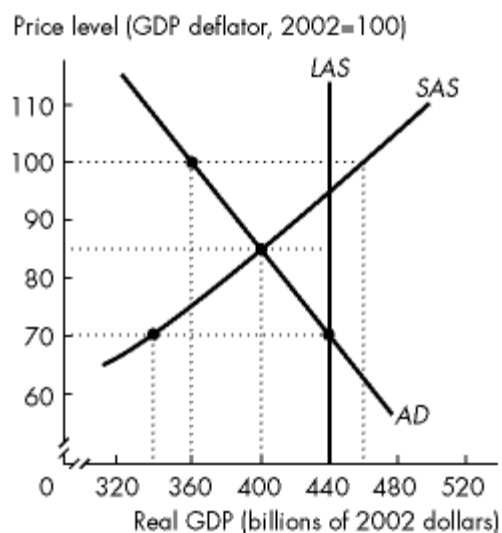


Figure 2

- 46) Refer to Figure 2. Consider statements (1) and (2) and select the correct answer.
- The actual unemployment rate exceeds the natural unemployment rate.
 - Short-run aggregate supply will automatically shift leftward as the economy adjusts to long-run equilibrium.
- (1) is true; (2) is true if the money wage rate falls.
 - (1) and (2) are false.
 - (1) and (2) are true.
 - (1) is true; (2) is false.
 - (2) is true; (1) is false.

Use the figure below to answer the following question.

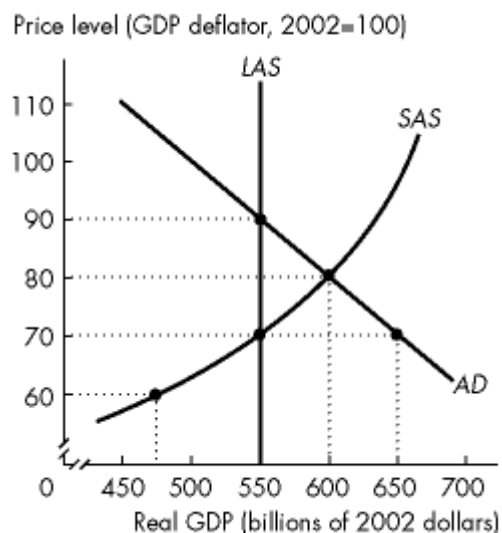


Figure 3

- 47) Refer to Figure 3. If the economy of Mythlo automatically adjusts to long-run equilibrium, then
- real GDP is \$600 billion.
 - the price level rises to 90.
 - the *SAS* curve shifts rightward.
 - the actual unemployment rate exceeds the natural unemployment rate.
 - potential GDP decreases.
- 48) We observe a decrease in the price level and a decrease in real GDP. Which of the following is a possible explanation?
- an increase in expected future income
 - a decrease in the quantity of money
 - an increase in factor prices
 - an increase in the quantity of capital
 - an increase in expected future profits
- 49) Consider an economy starting from a position of full employment. Which one of the following changes does *not* occur as a result of an increase in aggregate demand?
- The price level rises.
 - Factor prices rise in the long run, shifting the short-run aggregate supply curve to the left.
 - An inflationary gap arises.
 - Real GDP increases in the short run.
 - The long-run aggregate supply curve shifts rightward to create the new long-run equilibrium.

Use the table below to answer the following question.

Table 6

	2004	2005	2006
Real GDP growth rate	8.1	8.3	7.3
Inflation	4.2	4.7	4.6

50) Refer to Table 6. The International Monetary Fund's World Economic Outlook database provides the data given in the table for India in 2004, 2005 and 2006.

The numbers in the table are consistent with

- A) decreases in long-run and short-run aggregate supply and even greater decreases in aggregate demand.
- B) increases in short-run aggregate supply and increases in aggregate demand, but the increases in aggregate demand are smaller than the increases in short-run aggregate supply.
- C) increases in long-run and short-run aggregate supply and even larger decreases in aggregate demand.
- D) increases in long-run and short-run aggregate supply and even greater increases in aggregate demand.
- E) increases in short-run aggregate supply and no change in aggregate demand.

Answer Key

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|-------|-------|
| 1) C | 43) C |
| 2) D | 44) C |
| 3) E | 45) A |
| 4) D | 46) D |
| 5) A | 47) B |
| 6) A | 48) B |
| 7) A | 49) E |
| 8) D | 50) D |
| 9) A | |
| 10) D | |
| 11) A | |
| 12) B | |
| 13) A | |
| 14) C | |
| 15) E | |
| 16) B | |
| 17) A | |
| 18) E | |
| 19) B | |
| 20) B | |
| 21) D | |
| 22) E | |
| 23) E | |
| 24) A | |
| 25) B | |
| 26) C | |
| 27) C | |
| 28) A | |
| 29) B | |
| 30) E | |
| 31) A | |
| 32) A | |
| 33) C | |
| 34) A | |
| 35) E | |
| 36) B | |
| 37) E | |
| 38) E | |
| 39) C | |
| 40) C | |
| 41) E | |
| 42) A | |