

**THE UNIVERSITY OF WESTERN ONTARIO
LONDON CANADA**

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ECONOMICS 1022B-002/004

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MIDTERM 2 MAKE-UP

INSTRUCTIONS:

1. The examination begins at **4:30 p.m.** and ends at **6:30 p.m.**
2. Check that your examination paper contains 21 pages.
3. Use a **BLACK PENCIL** to complete your Scantron Form.

Print your **NAME** and complete your **SIGNATURE**.

Enter your **STUDENT NUMBER**.

Enter your **SECTION NUMBER**, which is either 002 or 004.

4. **Please hand in ALL MATERIALS.**
5. You may use a regular calculator but you may not use a programmable or graphing calculator. Your cell phone may *not* be used as a calculator.
6. Your cell phone must be switched off and left in your bag at the front of the exam room.

NOTE: QUESTIONS ARE PRINTED ON BOTH SIDES OF EACH PAGE

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

- 1) The firm that printed your textbook bought the paper from XYZ Paper Mills.
This purchase of paper _____ part of GDP because the paper is _____ good.
- A) is; an intermediate
 - B) is; a nonrenewable
 - C) is not; an intermediate
 - D) is not; a final
 - E) is; a final

Use the table below to answer the following question.

Table 1

Item	Millions of dollars
Wages paid to labour	800,000
Consumption expenditure	650,000
Taxes paid on wages	200,000
Government payments to support unemployed, sick, & aged	50,000
Firms' profits	200,000
Investment	250,000
Taxes paid on profits	50,000
Government expenditure on goods and service	200,000
Exports	250,000
Saving	200,000
Imports	300,000

- 2) Refer to Table 1. Consider the economy represented in the table. GDP in this economy, in millions of dollars, is
- A) \$850,000.
 - B) \$1,050,000.
 - C) \$1,150,000
 - D) \$1,350,000.
 - E) none of the above.

- 3) When we use PPP we can make valid international comparisons of real GDP because we
- A) calculate the value of goods and services produced in two countries using the same quantities.
 - B) use data provided by the IMF.
 - C) calculate the value of goods and services produced in two countries using the same prices.
 - D) use official government data.
 - E) use the price data provided by the two countries but not the quantities.

Use the table below to answer the following question.

Table 2

Item	2008 Quantity	2008 Price	2009 Quantity	2009 Price
CD players	10	\$100	15	\$110
bananas	50 bunches	\$2	100 bunches	\$3

- 4) Refer to Table 2. Calculating chained-dollar real GDP, real GDP in 2009 increased by
- A) 54.5 percent.
 - B) 75 percent.
 - C) 55.25 percent.
 - D) 30 percent.
 - E) 56 percent.
- 5) In a country with a working-age population of 30 million, 18 million are employed, 2 million are unemployed, and 2 million of the employed are working part-time, half of whom wish to work full-time. The labour force participation rate is
- A) 66.7 percent.
 - B) 73.3 percent
 - C) 60 percent.
 - D) 53.3 percent.
 - E) none of the above.
- 6) Which one of the following people is cyclically unemployed?
- A) an office worker who has lost her job because of a general slowdown in economic activity
 - B) a Nova Scotia fishery worker who is searching for a better job closer to home
 - C) a Saskatchewan welder who lost her job when her company relocated to B. C. and is currently looking for a job
 - D) a steel worker who is laid off but who expects to be called back soon
 - E) none of the above

Use the table below to answer the following question.

Table 3
Data From Southton

Item	Price	Price	Quantity	Quantity
	(dollars)	(dollars)	(number)	(number)
	Base	Current	Base	Current
Rubber				
Ducks	1.00	1.25	100	100
Beach Towels	9.00	6.00	12	14

- 7) Refer to Table 3. From the data in Table 3, what is Southton's consumer price index for the current year?
- A) 112
 - B) 100.5
 - C) 105.6
 - D) 94.7
 - E) 100
- 8) If the population increases, then potential GDP _____, employment _____, and _____ potential GDP per hour of labour.
- A) increases; increases; decreases
 - B) decreases; decreases; decreases
 - C) increases; decreases; decreases
 - D) increases; increases; increases
 - E) decreases; increases; increases

Use the table below to answer the following question.

Table 4

Year	Capital per hour of labour (seashells)	Labour productivity (seashells)
2007	600.0	400.0
2008	654.0	424.0
2009	719.4	466.4

- 9) Refer to Table 4. The table shows capital per hour of labour and labour productivity for the beach economy of Whitepool. Whitepool follows a one-third rule. In the year 2009, what is the contribution respectively of the increase in capital per hour of labor and the contribution of technological change to the growth in labour productivity?
- A) 0 percent; 10 percent
 - B) 5 percent; 5 percent
 - C) none of the above.
 - D) 10 percent; 0 percent
 - E) 3 1/3 percent; 6 2/3 percent
- 10) All of the following statements are included in new growth theory *except* _____.
- A) knowledge is capital that is not subject to the law of diminishing returns
 - B) discoveries are a public capital good
 - C) the forces of competition destroy incentives to make new discoveries
 - D) discoveries bring profit, and competition destroys profit
 - E) discoveries result from choices

Refer to the table below to answer the following question.

Table 5

Item	Millions of dollars
Consumption expenditure	80
Government expenditure on goods and services	30
Net taxes	35
Investment	20
Imports	10
Exports	20

11) Refer to Table 5. Private saving is

- A) \$40 million.
- B) -\$15 million.
- C) \$25 million.
- D) \$20 million.
- E) \$80 million.

12) During a recession, firms decrease their profit expectations. As a result, there is a _____ shift of the _____ loanable funds curve.

- A) leftward; demand for loanable funds curve and supply of
- B) leftward; demand for
- C) rightward; demand for
- D) rightward, supply of
- E) rightward; supply of

Refer to the table below to answer the following question.

Table 6

Real interest rate (percent per year)	Loanable funds demanded (trillions of 2002 dollars)	Loanable funds supplied (trillions of 2002 dollars)
4	7.0	7.0
5	6.5	7.5
6	6.0	8.0
7	5.5	8.5
8	5.0	9.0
9	4.5	9.5
10	4.0	10.0

- 13) Refer to Table 6. The table shows an economy's demand for loanable funds schedule and the private supply of loanable funds schedule when the government's budget is balanced. If the government budget deficit is \$1.0 trillion, the real interest rate is _____ percent a year, the quantity of investment is _____ trillion, and the quantity of private saving is _____ trillion.
- A) 5; \$7.5; \$6.5
 - B) 7; \$5.5; \$8.5
 - C) 3; \$6.5; \$7.0
 - D) 5; \$6.5; \$7.5
 - E) 7; \$8.5; \$5.5
- 14) An increase in the government budget deficit _____. If the country is an international borrower, the government budget deficit _____. If the country is an international lender, the government budget deficit _____.
- A) increases the country's demand for loanable funds; increases foreign borrowing; decreases foreign lending
 - B) decreases the country's demand for loanable funds; decreases foreign lending; increases foreign borrowing
 - C) increases the country's supply of loanable funds; decreases foreign lending; increases foreign borrowing
 - D) increases the country's demand for loanable funds; decreases foreign borrowing; increases foreign lending
 - E) decreases the country's supply of loanable funds; increases foreign borrowing; decreases foreign lending

- 15) Which one of the following is a component of M2 but not of M1?
- A) Currency in a bank vault.
 - B) Currency outside banks.
 - C) Personal chequable deposits.
 - D) Personal non-chequable deposits.
 - E) Canada Savings Bonds.
- 16) The Monetary Base consists of the sum of
- A) Bank of Canada notes held within the Bank of Canada, bank deposits at the Bank of Canada, and coins held by banks and the public.
 - B) Bank of Canada notes held outside the Bank of Canada, the desired reserves of chartered banks, and coins held by banks.
 - C) Bank of Canada notes held within the Bank of Canada, bank deposits at the Bank of Canada, and coins held by banks.
 - D) Bank of Canada notes held outside the Bank of Canada, bank deposits at the Bank of Canada, and coins held by banks and the public.
 - E) Bank of Canada notes held outside the Bank of Canada, bank deposits at the Bank of Canada, and notes and coins held by banks.
- 17) If the interest rate is below the equilibrium, how is equilibrium achieved in the money market?
- A) People buy bonds to get rid of their excess money, raising the price of bonds and raising the interest rate.
 - B) People buy goods to get rid of their excess money, lowering the price of goods and raising the interest rate.
 - C) People sell bonds to try and raise more money, lowering the price of bonds and raising the interest rate.
 - D) People sell goods to get rid of their excess money, lowering the price of goods and raising the interest rate.
 - E) People sell bonds to get rid of their excess money, lowering the price of bonds and raising the interest rate.

Refer to the table below to answer the following question.

Table 7

Currency	2009 Exchange Rate	2010 Exchange Rate
EU euro	2 euros/dollar	3 euros/dollar
Japanese yen	120 yen/dollar	90 yen/dollar

- 18) Refer to Table 7. Between 2009 and 2010, the yen
- A) appreciated against all world currencies.
 - B) must have depreciated in value versus the euro.
 - C) may or may not have appreciated in value versus the euro.
 - D) must have appreciated in value versus the euro.
 - E) depreciated against all world currencies.
- 19) Suppose that the following situation exists in the foreign exchange market: 1 Canadian dollar buys \$0.88 U.S., and 1 Canadian dollar buys 5.77 South African rand. How many U.S. dollars will one rand buy?
- A) \$0.17
 - B) \$6.56
 - C) \$0.15
 - D) 5.77
 - E) \$0.88
- 20) Suppose the price of a burger is \$4.50 Canadian in Toronto, and the exchange rate is 67 U.S. cents per Canadian dollar. Then
- A) the Canadian dollar is expected to depreciate according to purchasing power parity.
 - B) the Canadian dollar is expected to appreciate according to purchasing power parity.
 - C) the price of a burger is \$3 U.S. in New York if interest rate parity holds.
 - D) the price of a burger is \$3 U.S. in New York if purchasing power parity holds.
 - E) the price of a burger is \$4.50 U.S. in New York if purchasing power parity holds.
- 21) The supply curve of dollars shifts rightward if
- A) foreign interest rates rise.
 - B) the Canadian exchange rate rises.
 - C) the price of Canadian goods and services decreases.
 - D) Canadian interest rates rise.
 - E) none of the above.

- 22) If the current account is in deficit and the capital account is also in deficit, then the official settlements account balance is
- A) equal to the sum of the current account and the capital account.
 - B) positive.
 - C) negative.
 - D) zero.
 - E) probably close to zero, but could be either negative or positive.
- 23) Suppose that a country's government expenditures are \$400 billion, net taxes are \$300 billion, saving is \$300 billion, and investment is \$250 billion. This country has a government budget
- A) surplus and a private sector deficit.
 - B) surplus and a private sector balance.
 - C) deficit and a private sector surplus.
 - D) deficit and a private sector deficit.
 - E) surplus and a private sector surplus.
- 24) The change in official Canadian reserves is recorded in the
- A) current account.
 - B) capital account.
 - C) official settlements account.
 - D) consumption expenditure account.
 - E) international investment account.
- 25) An increase in the money wage rate shifts
- A) *SAS* leftward, but leaves *LAS* unchanged.
 - B) both *SAS* and *LAS* rightward.
 - C) *SAS* rightward, but leaves *LAS* unchanged.
 - D) *LAS* rightward, but leaves *SAS* unchanged.
 - E) both *SAS* and *LAS* leftward.
- 26) Everything else remaining the same, an increase in foreign income
- A) increases Canada's aggregate supply.
 - B) decreases Canada's aggregate supply.
 - C) decreases Canada's aggregate demand.
 - D) creates a movement downward along Canada's aggregate demand curve.
 - E) increases Canada's aggregate demand.

Use the table below to answer the following questions.

Table 8

Price Level (2002=100)	Aggregate Demand (billions of 2002 dollars)	Short-Run Aggregate Supply (billions of 2002 dollars)	Long-Run Aggregate Supply (billions of 2002 dollars)
100	800	300	600
110	700	400	600
120	600	500	600
130	500	600	600
140	400	700	600

- 27) Refer to Table 8. Consider the economy represented in the table. In short-run macroeconomic equilibrium, the price level is _____ and the level of real GDP is _____ billion.
- A) 120; \$600
 - B) 130; \$500
 - C) 120; \$500
 - D) 125; \$550
 - E) 130; \$600
- 28) Refer to Table 8. Consider the economy represented in the table. There is
- A) a recessionary gap equal to \$50 billion.
 - B) neither an inflationary nor a recessionary gap because the economy is at full employment.
 - C) a recessionary gap equal to \$100 billion.
 - D) an inflationary gap equal to \$50 billion.
 - E) an inflationary gap equal to \$100 billion.
- 29) Refer to Table 8. Consider the economy represented in the table. The economy eventually moves to its long-run equilibrium. In long-run equilibrium, the price level is _____ and real GDP is _____ billion.
- A) 130; \$600
 - B) 120; \$600
 - C) 125; \$550
 - D) 130; \$500
 - E) 120; \$500

Use the figure below to answer the following question.

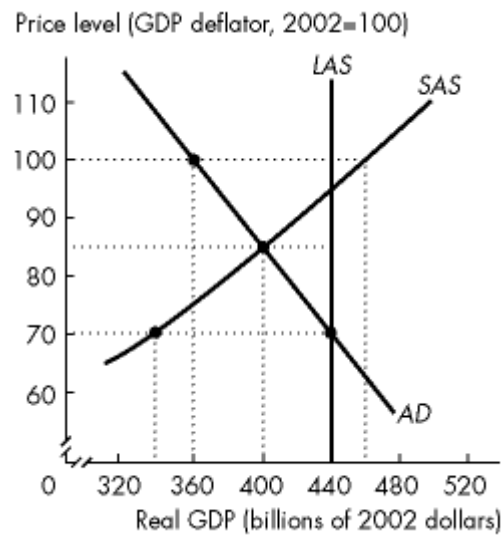


Figure 1

- 30) Refer to Figure 1. Short-run macroeconomic equilibrium real GDP in Econoworld is
- \$400 billion.
 - \$480 billion.
 - \$440 billion.
 - \$360 billion.
 - \$520 billion.
- 31) When the actual unemployment rate is equal to the natural unemployment rate, then the
- short-run aggregate supply curve is vertical.
 - economy is operating at potential GDP.
 - long-run aggregate supply curve is upward sloping.
 - the money wage rate will rise.
 - inflation rate must be zero.
- 32) A _____ macroeconomist believes that business cycle fluctuations are the efficient responses of a well-functioning market economy that is bombarded by shocks that arise from the uneven pace of technological change.
- A _____ macroeconomist believes that the short-run aggregate supply curve is horizontal at a fixed price level.
- new classical; new Keynesian
 - new classical; monetarist
 - Keynesian; new Keynesian
 - monetarist; new classical
 - classical; monetarist

Use the figure below to answer the following question.

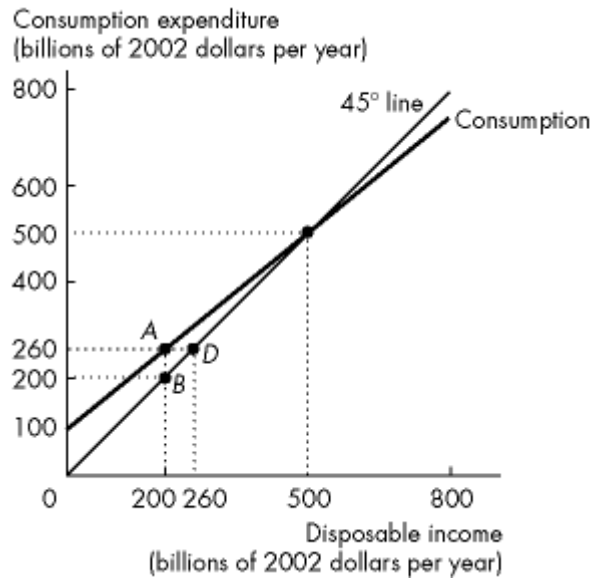


Figure 2

This figure describes the relationship between consumption expenditure and disposable income for a model economy.

- 33) Refer to Figure 2. When disposable income is \$500 billion, saving is equal to
- A) consumption expenditure.
 - B) \$20 billion.
 - C) zero.
 - D) disposable income.
 - E) \$40 billion.

Use the table below to answer the following question.

Table 9

Disposable Income (dollars)	Consumption Expenditure (dollars)
325	325
400	375
475	425
550	475
625	525

- 34) Refer to Table 9. What is the value of the marginal propensity to consume?
- A) 0.25
 - B) 0.67
 - C) 0.34
 - D) 0.75
 - E) 1.33

Use the figure below to answer the following question.

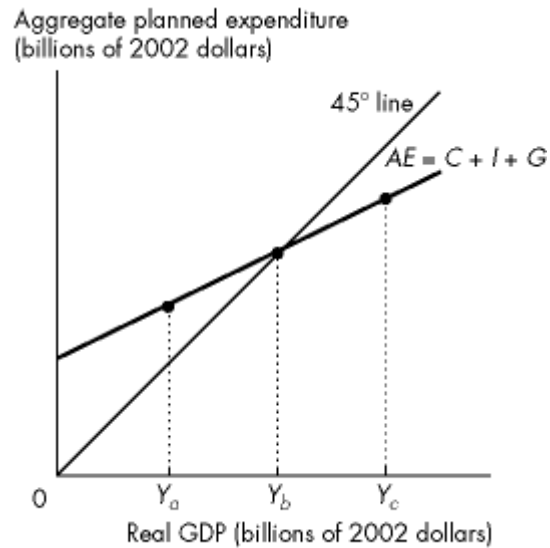


Figure 3

There are no exports or imports in this economy.

- 35) Refer to Figure 3. When real GDP is equal to Y_b , then
- A) real GDP decreases.
 - B) actual expenditure is less than planned expenditure.
 - C) actual expenditure is greater than planned expenditure.
 - D) real GDP increases.
 - E) planned expenditure is equal to actual expenditure.
- 36) If $AE = 100 + 0.7Y$ and $Y = 300$, then unplanned inventories
- A) decrease by 200.
 - B) increase by 200.
 - C) increase by 10.
 - D) decrease by 10.
 - E) do not change and equilibrium exists.

Refer to the table below to answer the following question.

Table 10

<i>Y</i> (trillions of dollars)	<i>C</i> (trillions of dollars)	<i>I</i> (trillions of dollars)	<i>G</i> (trillions of dollars)	<i>X</i> (trillions of dollars)	<i>M</i> (trillions of dollars)
1.0	1.00	0.5	0.7	0.45	1.15
2.0	1.65	0.5	0.7	0.45	0.30
3.0	2.30	0.5	0.7	0.45	0.45
4.0	2.95	0.5	0.7	0.45	0.60
5.0	3.60	0.5	0.7	0.45	0.75
6.0	4.25	0.5	0.7	0.45	0.90

- 37) Table 10 gives the aggregate expenditure schedule. Equilibrium expenditure is equal to _____.
- A) \$3 trillion
 - B) \$2 trillion
 - C) \$5 trillion
 - D) zero
 - E) \$4 trillion

Use the figure below to answer the following question.

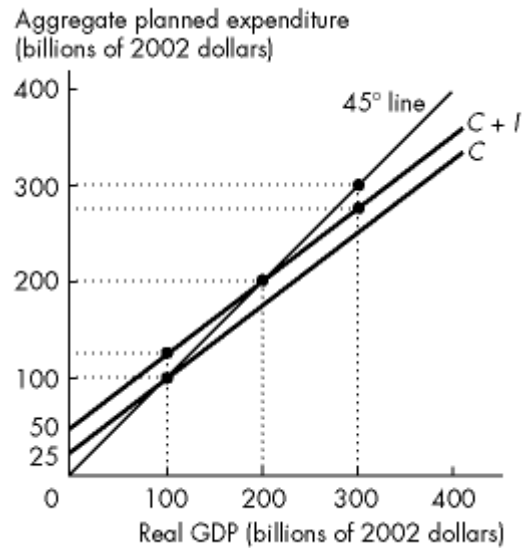


Figure 4

The economy shown in the graph does not engage in international trade and has no government. Planned aggregate expenditure equals the sum of consumption expenditure (C) and investment (I).

38) Refer to Figure 4. If investment increases by \$25 billion, then real GDP increases by

- A) \$125 billion.
- B) \$50 billion.
- C) \$25 billion.
- D) \$75 billion.
- E) \$100 billion.

39) The difference in the influence of a multiplier between the short run and the long run, is that

- A) the multiplier effect is zero in the long run.
- B) the multiplier effect depends on potential GDP in the long run.
- C) the multiplier effect is zero in the short run.
- D) the multiplier effect is larger in the long run.
- E) there is no multiplier effect in the short run.

40) A rise in the price level _____.

- A) shifts the AD curve rightward and brings a movement up along the AE curve
- B) shifts the AE curve upward and brings a movement down along the AD curve
- C) shifts the AE curve downward and shifts the AD curve rightward
- D) shifts the AD curve leftward and brings a movement down along the AE curve
- E) shifts the AE curve downward and brings a movement up along the AD curve

- 41) An increase in investment shifts the AE curve upward by an amount equal to the _____, and shifts the AD curve rightward by an amount equal to the _____.
- A) change in investment times the multiplier; change in investment
 - B) change in investment; change in investment
 - C) change in investment times the multiplier; change in investment times the multiplier
 - D) change in investment divided by the multiplier; change in investment
 - E) change in investment; change in investment times the multiplier

Use the figure below to answer the following question.

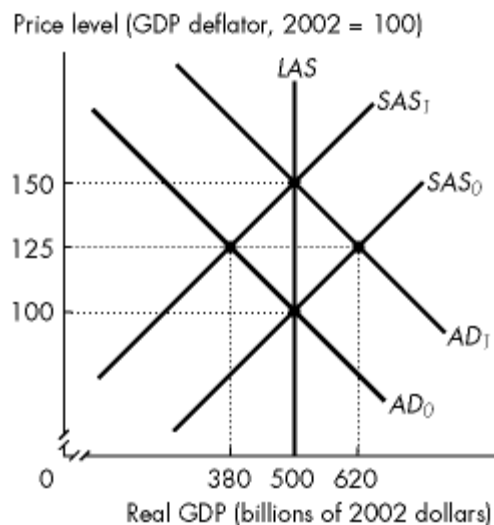


Figure 5

- 42) Refer to Figure 5. 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 expected to shift to AD_1 but remains at AD_0 , the new equilibrium real GDP is _____ and the new equilibrium price level is _____.
- A) \$380 billion; 125
 - B) \$500 billion; 150
 - C) \$380 billion; 100
 - D) \$500 billion; 100
 - E) \$620 billion; 125

Use the figure below to answer the following question.

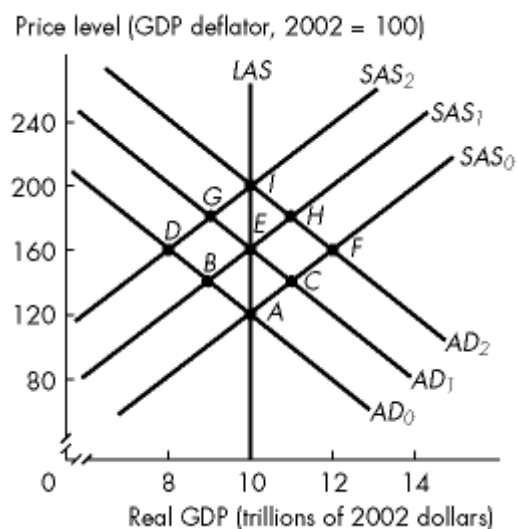


Figure 6

- 43) Refer to Figure 6. Starting at point A, the initial effect of a cost-push inflation is a move to point _____. As a cost-push inflation spiral proceeds, it follows the path _____.
- A) C; E, H, I
 - B) C; B, H, G, I
 - C) B; E, G, I
 - D) C; F
 - E) E; I
- 44) A forecast that is based on all the relevant information available is
- A) usually accurate.
 - B) usually no better than a random guess given that the future bears many uncertainties.
 - C) called a rational expectation.
 - D) useful only in the prediction of demand-pull inflation.
 - E) useful only in the prediction of cost-push inflation.
- 45) If the natural unemployment rate falls
- A) the short-run Phillips curve shifts rightward.
 - B) the long-run Phillips curve shifts rightward and the short-run Phillips curve does not change.
 - C) the short-run and long-run Phillips curves both shift rightward.
 - D) the long-run Phillips curve shifts leftward and the short-run Phillips curve does not change.
 - E) the short-run and long-run Phillips curves both shift leftward.

Use the table below to answer the following question.

Table 11

Inflation (percent per year)	Unemployment (percent)
12	4
11	5
10	6
9	7
8	8
7	9

- 46) Refer to Table 11. The table gives points on the short-run Phillips curve for the country of Ruritania. If the expected inflation rate is 10 percent, and the inflation rate unexpectedly rises to 12 percent, what is the unemployment rate?
- A) 5 percent
 - B) 6 percent
 - C) 9 percent
 - D) 4 percent
 - E) 7 percent
- 47) The Canadian long-run Phillips curve _____ when the expected inflation rate rises and _____ when the expected inflation rate falls.
The Canadian long-run Phillips curve _____ when the natural unemployment rate increases and _____ when the natural unemployment rate decreases.
- A) does not shift; does not shift; shifts rightward; shifts leftward
 - B) shifts upward; shifts downward; shifts rightward; shifts leftward
 - C) shifts rightward; shifts leftward; does not shift; does not shift
 - D) does not shift; does not shift; does not shift; does not shift
 - E) shifts rightward; shifts leftward; shifts rightward; shifts leftward

Use the figure below to answer the following question.

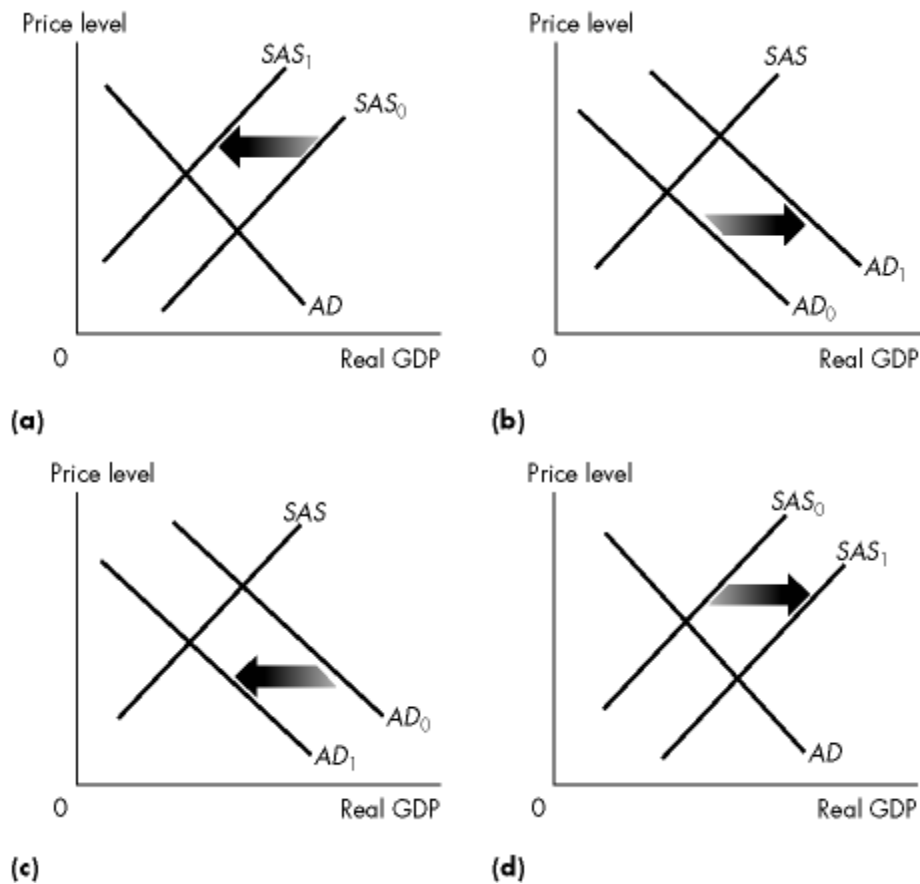


Figure 7

48) Refer to Figure 7. Which one of the graphs in the figure represents an economy that is moving *up* along a short-run Phillips curve?

- A) (a)
- B) (b)
- C) (c)
- D) (d)
- E) (b) or (d)

49) The key ripple effect in real business cycle theory is the _____ decision and it depends on the _____.

- A) what-to-save; nominal interest rate
- B) when-to-work; rigidity of the money wage rate
- C) where-to-work; real wage rate
- D) when-to-work; real interest rate
- E) when-to-invest; real interest rate

- 50) In real business cycle theory, _____ are the main source of economic fluctuations.
- A) random fluctuations in investment
 - B) random fluctuations in productivity
 - C) changes in the quantity of money
 - D) unexpected changes in the full-employment quantity of labour
 - E) unexpected changes in government expenditure

Answer Key

Testname: MT2MUMAR12

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

Answer Key

Testname: MT2MUMAR12

43) C

44) C

45) E

46) D

47) A

48) B

49) D

50) B