

**THE UNIVERSITY OF WESTERN ONTARIO
LONDON CANADA**

Jeannie Gillmore

ECONOMICS 1022B-002/004

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MIDTERM 1

INSTRUCTIONS:

1. The examination begins at **4:00 p.m.** and ends at **6:00 p.m.**
2. Check that your examination paper contains 14 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 Scantron Form only.**
5. You may use a calculator but 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.
7. You must remain in the examination room until you have finished the exam. No breaks outside of the examination room will be allowed.

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) Which of the following statements is true?
- A) Final goods and services produced in Canada by foreigners are part of Canada's GDP.
 - B) Final goods and services produced in Canada by foreigners are exports.
 - C) Final goods and services produced in Canada by foreigners are part of the foreign country's GDP.
 - D) Final goods and services produced in Canada by foreigners are imports.
 - E) Final goods and services produced abroad by Canadians are part of Canadian GDP.

Use the figure below to answer the following question.

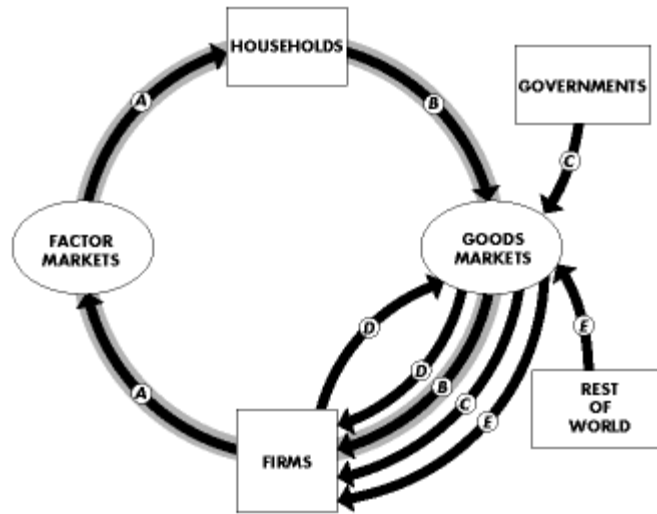


Figure 1

- 2) Refer to Figure 1, which shows the circular flow of expenditure and income for Venus. During 2008, *A* was \$100, *B* was \$50, *C* was \$30 and *D* was \$10. How much is GDP?
- A) \$50.
 - B) \$75.
 - C) \$90.
 - D) \$100.
 - E) None of the above.

Use the table below to answer the following question.

Table 1
Data From Eastland

Wages, salaries, and supplementary labour income	800
Farmers' income	80
Government expenditures on goods and services	240
Depreciation	240
Business investment	400
Personal income taxes net of transfer payments	140
Corporate profits	80
Indirect taxes	120
Net exports	80
Consumption expenditure	640
Interest and miscellaneous investment income	100

- 3) Refer to Table 1. From the information given in the table, the value of gross domestic product is
- A) \$1,120.
 - B) \$1,100.
 - C) \$1,290.
 - D) \$1,280.
 - E) \$1,360.
- 4) The largest component of GDP from the income approach is
- A) wages, salaries, and supplementary labour income.
 - B) corporate profits.
 - C) interest and miscellaneous investment income.
 - D) income of non-farm unincorporated businesses.
 - E) farmers' income.
- 5) Nominal GDP will increase
- A) only if the average level of prices rises.
 - B) only if both the average level of prices rises and the quantity of goods and services produced increases.
 - C) only if the quantity of goods and services produced increases.
 - D) if either the average level of prices rises or the quantity of goods and services produced increases.
 - E) only if the unemployment rate rises.

Use the table below to answer the following question.

Table 2
Data From Southton

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

- 6) Refer to Table 2. From the data in the table, compute Southton's nominal GDP in the current year.
- A) \$209.
 - B) \$226.
 - C) \$197.
 - D) \$208.
 - E) It cannot be calculated given the data.
- 7) When we use PPP we can make valid international comparisons of real GDP because we
- A) use official government data.
 - B) calculate the value of goods and services produced in two countries using the same quantities.
 - C) use the price data provided by the two countries but not the quantities.
 - D) calculate the value of goods and services produced in two countries using the same prices.
 - E) use data provided by the IMF.

Use the table below to answer the following questions.

Table 3

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

- 8) Refer to Table 3. In this table, at 2008 prices, the value of production from 2008 to 2009 has increased by
- A) 54.5 percent.
 - B) 77.3 percent.
 - C) 10.8 percent.
 - D) 91.7 percent.
 - E) 56 percent.

- 9) Refer to Table 3. In this table, at 2009 prices, the value of production from 2008 to 2009 has increased by
- A) 77.3 percent.
 - B) 91.7 percent.
 - C) 10.8 percent.
 - D) 54.5 percent.
 - E) 56 percent.
- 10) Refer to Table 3. Calculating chained-dollar real GDP, real GDP in 2009 increased by
- A) 75 percent.
 - B) 56 percent.
 - C) 30 percent.
 - D) 54.5 percent.
 - E) 55.25 percent.
- 11) In a country with a working-age population of 20 million, 13 million are employed, 1.5 million are unemployed, and 1 million of the employed are working part-time, half of whom wish to work full-time. The size of the labour force is
- A) 14.5 million.
 - B) 15.5 million.
 - C) 20 million.
 - D) 11.5 million.
 - E) 13 million.
- 12) In a country with a working-age population of 20 million, 13 million are employed, 1.5 million are unemployed, and 1 million of the employed are working part-time, half of whom wish to work full-time. The labour force participation rate is
- A) 57.5 percent.
 - B) 75.5 percent.
 - C) 72.5 percent.
 - D) 65 percent.
 - E) none of the above.
- 13) 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 unemployment rate is
- A) 10.3 percent.
 - B) 15.4 percent.
 - C) 10 percent.
 - D) 11.1 percent.
 - E) none of the above.

- 14) Since 1960, Canadian labor force participation rate has _____ and the unemployment rate has _____.
- A) trended higher; trended higher
 - B) trended lower; varied over the business cycle
 - C) trended higher; trended lower
 - D) trended higher; varied over the business cycle
 - E) varied over the business cycle; trended higher
- 15) 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. If 1 million of those unemployed are cyclically unemployed, what is the natural unemployment rate?
- A) 5.6 percent
 - B) 6.7 percent
 - C) 5 percent
 - D) 11.1 percent
 - E) none of the above
- 16) When the unemployment rate is less than the natural unemployment rate, real GDP is _____ than potential GDP and the output gap is _____.
- A) greater; negative
 - B) greater; positive
 - C) smaller; negative
 - D) greater; equal to zero
 - E) smaller; positive
- 17) The reference base period is 2002. A consumer price index of 122 in 2009 means that
- A) the average of the prices paid by urban consumers for a fixed market basket of consumer goods and services was 22 percent higher in 2009 than it was on average during 2002.
 - B) the market basket of consumer goods that cost \$122 in 2002 can be purchased for \$100 in 2009.
 - C) if the price of a good was \$100 in 2002, its price in 2009 is \$122.
 - D) prices of consumer goods have more than doubled.
 - E) prices of consumer goods have gone up by a factor of 12.2.

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)
	1998	2008	1998	2008
Pop	0.75	1.10	100	120
Crackers	1.25	2.10	300	280
Cucumbers	2.00	3.00	200	190

- 18) Refer to Table 4. The reference base period is 2008. The CPI in 1998 is
- A) 64.
 - B) 100.
 - C) 157.
 - D) 129.
 - E) 152.
- 19) If there is a 5 percent increase in the CPI, then there will most likely be
- A) a more than 5 percent rise in the cost of living because of the introduction of new goods.
 - B) a less than 5 percent rise in the cost of living because of consumers substituting away from goods whose relative prices rise towards other goods.
 - C) a 5 percent rise in the cost of living.
 - D) a less than 5 percent rise in the cost of living because of falling quality of goods over time.
 - E) a more than 5 percent rise in the cost of living because of consumers substituting away from goods whose relative prices rise towards other goods.
- 20) Of the following sequences of price levels, which correctly represents a 5 percent inflation rate?
- A) 100, 105, 105, 105
 - B) 95, 100, 105, 110
 - C) 100, 105, 110, 115
 - D) 100, 105, 110.25, 115.76
 - E) 100, 100, 100, 100
- 21) Suppose a country's population grows by 2 percent a year and, at the same time, its real GDP grows by 5 percent a year. Real GDP per person is increasing by _____ a year.
- A) 2 percent
 - B) 5 percent
 - C) 3 percent
 - D) 10 percent
 - E) 16 percent

- 22) The Rule of 70 is used to
- A) calculate the economy's growth rate.
 - B) estimate how much of an economy's growth rate is attributable to increases in capital per hour of labour.
 - C) estimate how much of an economy's growth rate is attributable to technological advance.
 - D) estimate how long it will take the level of any variable to double.
 - E) calculate the standard of living.
- 23) Convergence between real GDP per person in Canada and Japan was relatively _____ during the 1960s; convergence has recently been _____.
- A) slow; increasing
 - B) rapidly; continuing at the 1960s pace
 - C) rapid; increasing at an even faster rate
 - D) slow; decreasing
 - E) rapid; decreasing
- 24) Canada's economic growth rate was highest in which of the following decades?
- A) the 1930s
 - B) the 1990s
 - C) the 1960s
 - D) the 1970s
 - E) the 1980s

Use the figure below to answer the following question.

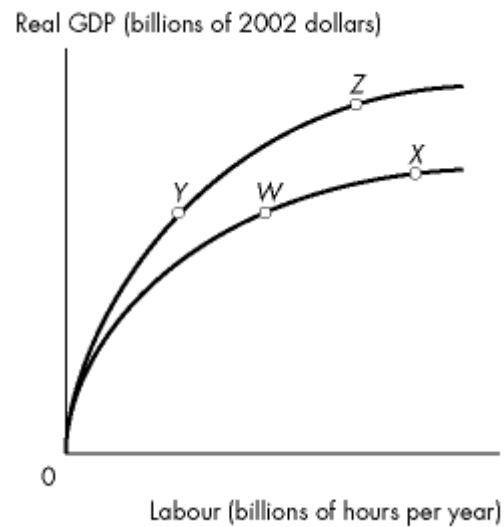


Figure 2

- 25) Refer to Figure 2. The country of Kemper is on its aggregate production function at point *W* in the above figure. If the population increases with no change in capital or technology, the economy will
- A) move to point such as *X*.
 - B) either remain at point *W* or move to point *X*.
 - C) move to point such as *Z*.
 - D) remain at point *W*.
 - E) move to point such as *Y*.
- 26) When the population increases with no change in labour productivity, employment _____ and potential GDP _____.
- A) increases; decreases
 - B) increases; increases
 - C) decreases; decreases
 - D) increases; does not change
 - E) decreases; increases

Use the table below to answer the following questions.

Table 5

Real wage rate (2002 dollars per hour)	Quantity of labour demanded (billions of hours per year)	Quantity of labour supplied (billions of hours per year)
15	70	10
20	60	20
25	50	30
30	40	40
35	30	50

Real GDP (trillions of 2002 dollars per year)	Quantity of labour (billions of hours per year)
3	20
9	30
14	40
18	50
21	60

27) Refer to Table 5. The tables show the labour market and the aggregate production function schedule for the country of Pickett. Potential GDP is _____.

- A) \$6 trillion
- B) \$25 trillion
- C) \$14 trillion
- D) \$40 trillion
- E) \$9 trillion

28) Refer to Table 5. The tables show the labour market and the production function schedule for the country of Pickett. An increase in population changes the quantity of labour supplied by 20 billion hours at each real wage rate. Potential GDP _____.

- A) increases to \$50 trillion.
- B) increases to \$18 trillion.
- C) decreases to \$3 trillion.
- D) increases to \$20 trillion.
- E) does not change.

- 29) In Lotusland, labour productivity grows at 6 percent a year and capital per hour of labour increases by 6 percent a year. A one-quarter rule tells us that capital per hour of labour increases labour productivity by _____.
- A) 12 percent a year
 - B) 6 percent a year
 - C) 2 percent a year
 - D) 1.5 percent a year
 - E) 3 percent a year
- 30) If capital per hour of labour increases, labour productivity
- A) decreases because the level of technology decreases.
 - B) increases for a given level of technology.
 - C) increases because the level of technology increases.
 - D) decreases for a given level of technology.
 - E) does not change unless technology advances at the same time.
- 31) Which of the following is *false* about saving?
- A) Income left after paying taxes can either be consumed or saved.
 - B) Saving supplies funds in loan markets, bond markets, and stock markets.
 - C) Saving is the source of funds used to finance investment.
 - D) Saving adds to wealth.
 - E) Saving equals wealth minus consumption expenditure.
- 32) The demand for loanable funds is the relationship between the quantity of loanable funds demanded and the _____ other things remaining the same.
- A) quantity of loanable funds supplied
 - B) real interest rate
 - C) nominal interest rate
 - D) price level
 - E) inflation rate
- 33) An increase in disposable income shifts the supply of loanable funds curve
- A) rightward and increases the real interest rate.
 - B) leftward and increases the real interest rate.
 - C) rightward and the demand for loanable funds curve leftward.
 - D) leftward and decreases the real interest rate.
 - E) rightward and decreases the real interest rate.
- 34) In Canada's economy, investment is financed by
- A) $C + S + T$.
 - B) $S + (T - G) + (M - X)$.
 - C) $S + T + M$.
 - D) $S + (T - G) + (X - M)$.
 - E) $C + I + G + X - M$.

- 35) If the government begins to run a larger budget deficit, the demand for loanable funds _____ and the real interest rate _____.
- A) decreases; rises
 - B) increases; rises
 - C) decreases; falls
 - D) increases; rises or falls depending on the change in the supply of loanable funds
 - E) increases; falls
- 36) According to the Ricardo-Barro effect,
- A) taxpayers fail to foresee that government deficits imply higher future taxes.
 - B) a government deficit decreases the supply of loanable funds.
 - C) households increase personal saving when governments run budget deficits.
 - D) government deficits raise the real interest rate.
 - E) government budget deficits increase households' expected future disposable income.

Use the table below to answer the following question.

Table 6
Data from Northland

Real Interest Rate	Demand for Loanable Funds (billions of dollars)	Supply of Loanable Funds (billions of dollars)
3%	160	40
4%	140	60
5%	120	80
6%	100	100
7%	80	120
8%	60	140

- 37) Refer to Table 6. Table 6 shows the market for loanable funds in Northland. The government budget is balanced. If the government moves from a balanced budget to a surplus of \$20 billion, the new equilibrium has a real interest rate of _____ and quantity of loanable funds traded equal to _____.
- A) 6.5%; \$110 billion
 - B) 6.5%; \$90 billion
 - C) 6%; \$120 billion
 - D) 5.5%; \$110 billion
 - E) 5.5%; \$90 billion

- 38) A very small country is a net foreign borrower. Then its supply of loanable funds increases but it still remains a net foreign borrower. As a result, the equilibrium quantity of loanable funds used in the country _____ and the country's foreign borrowing _____.
- A) does not change; increases
 - B) increases; does not change
 - C) does not change; does not change
 - D) increases; decreases
 - E) does not change; decreases
- 39) A very small country is a net foreign borrower and its demand for loanable funds increases. As a result, the equilibrium quantity of loanable funds used in the country _____ and the country's foreign borrowing _____.
- A) increases; decreases
 - B) does not change; does not change
 - C) does not change; increases
 - D) increases; increases
 - E) increases; does not change
- 40) A very small country is a net foreign lender and its supply of loanable funds increases. As a result, the equilibrium quantity of loanable funds used in the country _____ and the country's foreign lending _____.
- A) does not change; does not change
 - B) increases; decreases
 - C) does not change; increases
 - D) does not change; decreases
 - E) increases; does not change
- 41) Money can take the form of any one of the following *except*
- A) a chequing deposit.
 - B) a credit card.
 - C) a saving deposit.
 - D) coins.
 - E) Bank of Canada notes.
- 42) If Wolfgang transfers \$1,000 out of his chequable deposit account and places it in his non-chequable deposit account,
- A) M1 falls and M3 rises.
 - B) M1 and M2 fall.
 - C) M1 rises and M2 remains the same.
 - D) M1 falls and M2 rises.
 - E) M1 falls and M2 remains the same.

- 43) Which one of the following is *not* a depository institution?
- A) A foreign-owned chartered bank.
 - B) A credit union.
 - C) A car insurance company.
 - D) A trust and mortgage loan company.
 - E) A *caisse populaire*.
- 44) The Monetary Base consists of the sum of
- A) Bank of Canada notes held outside the Bank of Canada, the desired reserves of chartered banks, and coins held by banks.
 - B) 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.
 - C) 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.
 - D) Bank of Canada notes held within the Bank of Canada, bank deposits at the Bank of Canada, and coins held by banks.
 - 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.
- 45) Suppose that a country has \$50 billion in bank reserves, \$100 billion in currency held by the public, and \$500 billion in bank deposits. The currency drain ratio is
- A) 30%.
 - B) 20%.
 - C) 10%.
 - D) 50%.
 - E) 18%.
- 46) If the interest rate is above the equilibrium rate, 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 lowering the interest rate.
 - B) People buy goods to get rid of their excess money, lowering the price of goods and lowering the interest rate.
 - C) People sell bonds to get rid of their excess money, lowering the price of bonds and lowering the interest rate.
 - D) People sell bonds to get rid of their excess money, raising the price of bonds and lowering the interest rate.
 - E) People sell goods to get rid of their excess money, lowering the price of goods and lowering the interest rate.

- 47) Real GDP is \$2,560 billion, the price level is 125, and the velocity of circulation is 5. The quantity of money is
- A) \$2,048 billion.
 - B) \$400 billion.
 - C) \$625 billion.
 - D) \$640 billion.
 - E) \$20.48 billion.
- 48) You are given the following information about the economy of Nocoin:
 The banks have deposits of \$300 billion. Their reserves are \$15 billion, two thirds of which is in deposits with the central bank. Households and firms hold \$30 billion in bank notes. There are no coins!
 The banks have no excess reserves.
 The Bank of Nocoin, the central bank, increases bank reserves by \$0.5 billion.
 The quantity of money _____.
 The change in the quantity of money is not equal to the change in the monetary base because _____.
 The money multiplier is _____.
- A) increases; the monetary base includes bank deposits; 7.0
 - B) increases; when bank reserves increase, banks loan out their excess reserves and a multiplier process ensues; 7.33
 - C) decreases; money includes currency but the monetary base does not include currency; 7.0
 - D) decreases; an increase in monetary base brings about a decrease in the quantity of money; 7.33
 - E) increases; the components of the monetary base are not the components of the quantity of money; 7.0
- 49) As described in "Canada's inflation slows to 2.3%" (Financial Post, January 20, 2012), the Canadian inflation rate dropped to 2.3% in December, closer to the 2% target. Soon after this news was released, the Canadian dollar _____ and the Bank of Canada _____ its key interest rate.
- A) depreciated; maintained
 - B) depreciated; lowered
 - C) appreciated; lowered
 - D) depreciated; raised
 - E) appreciated; maintained
- 50) Choose the correct statement.
- A) Canada's unemployment rate is less than 8 percent.
 - B) The U.S. unemployment rate is greater than 8 percent.
 - C) Slow economic growth in Japan in 2011 is in part attributable to the effects of the tsunami.
 - D) All of the above statements are true.
 - E) None of the above statements are true.

Answer Key

Testname: MT1FEB12

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

Answer Key

Testname: MT1FEB12

43) C

44) B

45) B

46) A

47) D

48) B

49) A

50) D