

Concordia University
Department of Economics
ECON 203 - INTRODUCTION TO MACROECONOMICS
Winter 2016 Midterm Exam VERSION A

STUDENT NAME: _____

STUDENT NUMBER: _____

Please read all instructions carefully.

This exam lasts 75 minutes. The test consists of 12 pages. Only non-programmable calculators are allowed. Use pencil to fill in the scantron provided. Do not erase! Do not use a pen! Once you finish the exam, you may hand it in to an invigilator. Please, exit the amphitheater in silence.

1. Which of the following headlines would be most closely related to what macroeconomists study?
 - A. Unemployment rate rises from 5 percent to 5.5 percent.
 - B. The price of gold grows by 3.1 percent in the third quarter.
 - C. The number of tourists visiting Canadian national parks has declined.
 - D. The price of oranges rises after an early frost.

2. How should Robert's contributions to GDP be calculated?
 - A. using his income, not his expenditure
 - B. using his expenditure, not his income
 - C. using both his income and his expenditure
 - D. using either his income or his expenditure, but not both

3. Which of the following is counted in Canadian GDP?
 - A. goods and services produced by Canadian citizens working in the U.S.
 - B. American intermediate goods used in the production of Canadian final goods
 - C. Canadian final goods and services purchased by the American government
 - D. American final goods and services purchased by the Canadian government

4. A German citizen buys an automobile produced in Canada by a Japanese company. What happens as a result?
 - A. Canadian net exports increase, Canadian GNP and GDP are unaffected, Japanese GNP increases, German net exports decrease, and German GNP and GDP are unaffected.
 - B. Canadian net exports, GNP, and GDP increase; Japanese GDP increases; German net exports decrease; and German GDP is unaffected.
 - C. Canadian net exports and GDP increase, Japanese GNP increases, German net exports decrease, and German GDP and GNP are unaffected.
 - D. Canadian net exports, GNP, and GDP are unaffected; Japanese GNP increases; German net exports decrease; and German GDP and GNP decrease.

5. One of the early signs that an economy should increase its level of aggregate output is generally:
 - A. an unplanned reduction in business inventories.
 - B. a surplus of consumer goods on the market.
 - C. the willingness of firms to increase their level of investment in plant and equipment.
 - D. a reduction in the overall price level.

6. Empirical data show that a strong, positive relationship exists between personal consumption expenditures and
- A. the real interest rate.
 - B. the level of personal disposable income.
 - C. progressive taxes.
 - D. planned investment spending.
7. Sally is on a temporary layoff from the factory where she makes plastic tableware. If Sally participates in the Statistics Canada survey, how will she be classified?
- A. as unemployed and in the labour force
 - B. as unemployed and out of the labour force
 - C. as employed and in the labour force
 - D. as employed and out of the labour force
8. An increase in the Canadian price level will cause:
- A. both exports and imports to decrease
 - B. exports to decrease and imports to increase.
 - C. both exports and imports to increase.
 - D. exports to increase and imports to decrease.
9. To say investment and part of consumption are autonomous means that:
- A. consumption expenditure determines investment.
 - B. they are interrelated.
 - C. investment determines consumption expenditure.
 - D. both are determined independently of income.
10. Which of the following best defines (1) advances in technology and (2) the impact of advances in technology?
- A. It refers to the ability to produce more output with more resources; it shifts the potential output curve (LRAS) outward.
 - B. It refers to the ability to produce the same output with a smaller quantity of resources; it shifts the potential output curve (LRAS) inward.
 - C. It refers to the ability to produce the same output with a larger quantity of resources; it shifts the potential output curve (LRAS) outward.
 - D. It refers to the ability to produce more output with a fixed quantity of resources; it shifts the potential output curve (LRAS) outward.

11. Government activity affects aggregate demand by:
- A. providing public goods and services only.
 - B. collecting taxes and making transfer payments as well as spending on public goods and services.
 - C. changing the level of aggregate supply of goods and services.
 - D. establishing the rules within which a market economy must operate.
12. Which of the following best completes this statement: "Once we include a proportional income tax in the model of aggregate expenditure and equilibrium real GDP, then....:"
- A. individual incomes are higher than they would be without the taxes.
 - B. the marginal propensity to consume out of disposable income rises as a result of the tax.
 - C. the multiplier is lower than it would be without the taxes.
 - D. the government must also be spending on goods and services.
13. The aggregate demand - aggregate supply model is used to:
- A. explain changes in the prices and quantities of a particular good or service.
 - B. explain the behaviour of real GDP and prices in a national economy.
 - C. the average price level in an economy but not the real GDP.
 - D. the real GDP in an economy but not the price level.
14. Suppose that nominal wages fall and productivity rises in a particular economy. Other things equal, the aggregate:
- A. demand curve will shift leftward.
 - B. supply curve will shift rightward.
 - C. supply curve will shift leftward.
 - D. expenditures curve will shift downward.
15. In the short run, macroeconomic analysis focuses on _____, while in the long run, the focus is on _____.
- A. fiscal policy; monetary policy
 - B. short-run economic growth; population demographics
 - C. unemployment; inflation
 - D. the business cycle; long-run economic growth
16. The process by which productivity raises the average standard of living is referred to as
- A. long-run economic growth.
 - B. labor productivity.
 - C. population growth analysis.
 - D. the economic prosperity problem.

17. Which of the following is an example of a fiscal policy?
- A. Businesses begin to lay off employees and increase investment spending during an economic recession.
 - B. The federal government increases infrastructure spending during an economic recession.
 - C. Banks decrease interest rates during an economic recession.
 - D. Businesses begin to lay off employees and cut back on spending during an economic recession.
18. An example of fixed investment spending is
- A. the purchase of a restaurant meal.
 - B. the purchase of corporate bonds by Microsoft Corporation.
 - C. the purchase of a new wood chipper by a landscape maintenance company.
 - D. \$4 million in unsold furniture at a home furnishings manufacturer.
19. If a Canadian firm opens a production facility in the United States, the profits from this production facility received by the Canadian owners of the firm in exchange for the factors of production they supply will be included in the
- A. gross domestic product of Canada.
 - B. gross national product of the United States.
 - C. gross national product of Canada.
 - D. exports from Canada and imports to the United States.
20. The CPI in year one was 145. The CPI in year two was 160. The rate of inflation between years one and two was _____ percent.
- A. 10.3
 - B. 4.1
 - C. 4.5
 - D. 5.1
21. Suppose the working-age population of a fictional economy falls into the following categories: 30 are retired; 45 are stay-at-home parents; 120 are employed full time; 40 are employed part time; 25 are unemployed but are actively looking for employment; 15 are unemployed and are not actively looking for employment. The official unemployment rate would be
- A. 9.62%.
 - B. 13.51%.
 - C. 14.55%.
 - D. 20.0%.

22. A government budget deficit is financed mainly by borrowing from the public by:
- A. printing money.
 - B. raising taxes.
 - C. borrowing overseas.
 - D. selling bonds.

Use the following to answer the next 3 questions:

$$\text{Consumption } C = 65 + 0.8(Y - \text{Taxes})$$

$$\text{Investment } I = 350$$

$$\text{Government expenditure } G = 280$$

$$\text{Exports } X = 5$$

$$\text{Imports } Z = 0.14Y$$

$$\text{Taxes} = 0.2Y$$

23. The multiplier for this economy is:

- A. 4.
- B. 2.
- C. 3.
- D. 2.33.

24. The equilibrium level of GDP for this economy is:

- A. \$1,200.
- B. \$1,530.
- C. \$1,400.
- D. \$1,415.

25. If government wanted to raise the equilibrium GDP to \$1,450, it could:

- A. raise G by \$50 and not change NT
- B. raise G by \$25 and not change NT
- C. raise G by \$30 or reduce NT by \$40.
- D. raise both G and NT by \$25.

26. A balanced increase in the government's expenditure and tax revenue will:

- A. lead to higher equilibrium GDP.
- B. have no effect on equilibrium real GDP.
- C. reduce equilibrium real GDP.
- D. have an unpredictable effect on equilibrium real GDP.

27. If net exports are positive:
- A. the equilibrium GDP must be greater than potential GDP.
 - B. imports must exceed exports.
 - C. some other component of aggregate expenditures must be negative.
 - D. aggregate expenditures are greater at each level of GDP than when net exports are zero or negative.
28. In an economy without government (a) exports are \$30 billion, (b) consumption equals income at \$120 billion, and (c) the level of investment is \$40 billion. What is the equilibrium level of income?
- A. \$50 billion.
 - B. \$130 billion.
 - C. \$190 billion.
 - D. \$198 billion.

Use the following to answer the next 3 questions:

The following information is consumption and investment data for a closed economy. Figures are in billions of dollars.

$$C = 60 + .6Y$$

$$I = I_0 = 30$$

29. Refer to equations above. The equilibrium level of income (Y) is:
- A. 360.
 - B. 225.
 - C. 200.
 - D. 135.
30. Refer to equations above. In equilibrium the level of consumption spending will be:
- A. 170.
 - B. 270.
 - C. 160.
 - D. 195.
31. Refer to equations above. In equilibrium the level of saving will be:
- A. 30.
 - B. 26.
 - C. 25.
 - D. 60.

32. If the slope of the AE function was 0.8, before taxes, and the government introduced taxes = 0.15Y, the slope of AE would be:
- A. 1.0.
 - B. 0.6.
 - C. 0.12.
 - D. 0.68.

	<u>2011</u>	<u>2012</u>
Nominal GDP	\$555 million	\$610 million
Real GDP	\$480 million	\$575 million

Table 1

33. Refer to Table 1. The GDP deflator for 2011 is
- A. 86.5.
 - B. 115.6.
 - C. 135.1.
 - D. 156.3.
34. Since 2004, the Central Bank has focused on a core price index that excludes food and energy prices to measure inflation because
- A. food and energy are necessities, so consumers have no choice but to purchase these.
 - B. food and energy prices tend to remain stable in the short run, so are not relevant to the calculation of inflation.
 - C. including food and energy prices tends to overstate the true inflation rate by 0.5% to 1%.
 - D. food and energy prices tend to fluctuate up and down for reasons that may not be related to the general causes of inflation.
35. Suppose the population of a fictional economy falls into the following categories: 320 are employed full time; 110 are employed part time; 20 are unemployed but are actively looking for employment; 50 are unemployed and are not actively looking for employment. The official unemployment rate would be:
- A. 4.4%.
 - B. 5.9%.
 - C. 14.0%.
 - D. 28.9%.
36. Which of the following would cause the unemployment rate as measured by the Statistics Canada to understate the true degree of joblessness in the economy?
- A. people employed in the underground economy
 - B. unemployed persons who falsely report themselves as actively looking for a job
 - C. retired people who have no intention of returning to work
 - D. people with part-time jobs who would prefer to be working full time

37. Which of the following best defines the natural rate of unemployment?
- A. It is the unemployment rate that would prevail with zero inflation.
 - B. It is the rate associated with the highest possible level of GDP.
 - C. It is the difference between long-run and short-run unemployment rates.
 - D. It is the amount of unemployment that the economy normally experiences.
38. What does cyclical unemployment refer to?
- A. the relation between the probability of unemployment and a worker's changing level of experience
 - B. how often a worker is likely to be employed during her lifetime
 - C. year-to-year fluctuations of unemployment around its natural rate
 - D. long-term trends in unemployment
39. Rick loses his job and immediately begins looking for another. Other things equal, what happens to the unemployment rate?
- A. The unemployment rate decreases because he is not in the labour force anymore.
 - B. The unemployment rate increases because he is still in the labour force.
 - C. The unemployment rate decreases because he is still in the labour force.
 - D. The unemployment rate increases because he is not in the labour force anymore. .
40. Last year, a government reported an increase in the number of people who were employed and an increase in the unemployment rate. Which of the following would best explain the report?
- A. There was an increase in labour force.
 - B. There was a decrease in labour force.
 - C. There was an increase in adult population.
 - D. There was a decrease in adult population.

This table shows the 2015 data for males and females aged 15 and over in the country of Dan.

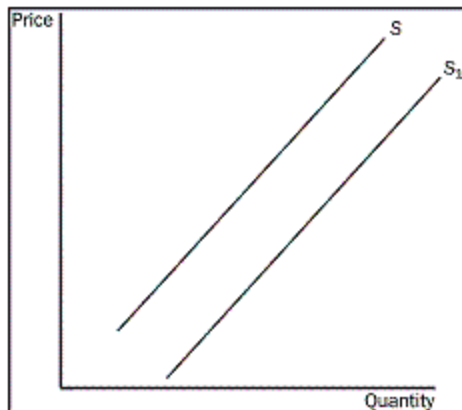
Not in the Labour Force		Unemployed		Employed	
Male	Female	Male	Female	Male	Female
45 million	35 million	5 million	5 million	85 million	65 million

Table 2

41. Refer to Table 2. What is the adult female unemployment rate in Dan?
- A. 4.76 percent
 - B. 5.56 percent
 - C. 7.14 percent
 - D. 7.69 percent
42. Refer to Table 2. What is the adult male labour-force participation rate in Dan?
- A. 7.40 percent
 - B. 33.33 percent
 - C. 37.03 percent
 - D. 66.67 percent
43. The government operates programs for job training and job information intended to reduce unemployment. Which of the following best describes how economists feel about such programs?
- A. Most economists agree that such programs are of no use.
 - B. Most economists agree that such programs work very well.
 - C. Some economists claim that the government can do these things no better than firms, and individuals could do them for themselves.
 - D. Some economists believe that the private sector has no role in the process of job search.
44. Workers at a bicycle assembly plant currently make minimum wage. If the provincial government increases the minimum wage by \$1.00 an hour, what will likely happen?
- A. Demand for bicycle assembly workers will increase.
 - B. Supply of bicycles will shift to the right.
 - C. Supply of bicycles will shift to the left.
 - D. The firm must increase output to maintain profit levels.

45. Recent forest fires in the western provinces are expected to cause the price of lumber to rise in the next six months. As a result, what can we expect to happen to the supply of lumber?
- A. It will fall in six months, but not now.
 - B. It will increase in six months when the price goes up.
 - C. It will fall now.**
 - D. It will increase now to meet as much demand as possible.

Figure 1



46. Refer to Figure 1. What is the movement from S to S₁ called?
- A. a decrease in supply
 - B. a decrease in quantity supplied
 - C. an increase in supply**
 - D. an increase in quantity supplied

Total population	791
Population under 15 years of age or institutionalized	217
Working age population NOT in the labour force	134
Unemployed	34
Part-time workers looking for full-time jobs	22

Table 3

47. Use the information in Table 3 to calculate the size of the labour force:

- A. 56
- B. 134
- C. 440
- D. 190

48. Use the information in Table 3 to calculate the unemployment rate:

- A. 7.73%
- B. 5.62%
- C. 4.9%
- D. 8.25%

49. Use the information in Table 3 to answer the following question:

Assume that the Structural Unemployment rate is 3% and Frictional Unemployment rate is 1%. Calculate the Natural rate of unemployment and the Cyclical unemployment rate.

- A. 3%; 4.73%
- B. 4%; .9%
- C. 4%; 4.25%
- D. 4%; 3.73%

50. In a closed economy: (a) the marginal propensity to consume is 0.5, (b) autonomous consumption \$60 billion and (c) the level of government spending is \$40 billion. What is the equilibrium level of income?

- A. \$250 billion
- B. \$300 billion
- C. \$200 billion
- D. \$100 billion.