

ECON 203: Multiple Choice Questions

1. If a country reported a nominal GDP of 85 billion in 2007 and 100 billion in 2006 and reported a GDP deflator of 100 in 2007 and of 105 in 2006, then from 2006 to 2007 real output
 - (a) and prices both rose.
 - (b) rose and prices fell.
 - (c) and prices both fell.**
 - (d) fell and prices rose.
2. Suppose that Nova Scotia produces cheese and fish. In 2007, 20 units of cheese are sold at \$5 each, and 8 units of fish are sold at \$50 each. In 2006, the base year, the price of cheese was \$10 per unit, and the price of fish was \$75 per unit.
 - (a) Nominal 2007 GDP is \$500, real 2007 GDP is \$800, and the GDP deflator is 62.5.**
 - (b) Nominal 2007 GDP is \$500, real 2007 GDP is \$800, and the GDP deflator is 160.
 - (c) Nominal 2007 GDP is \$800, real 2007 GDP is \$500, and the GDP deflator is 160.
 - (d) Nominal 2007 GDP is \$800, real 2007 GDP is \$500, and the GDP deflator is 62.5.
 - (e) None of the above is correct.
3. Suppose that an apartment complex converts to a condominium where the renters are now owners of their former apartments.
 - (a) The rent was included in GDP; the purchases of the condominiums are not.**
 - (b) The rent was included in GDP, and so is the purchase of the condominiums.
 - (c) The rent was not included in GDP; the purchases of the condominiums are.
 - (d) Neither the rent of the apartments nor the purchases of the condominium are included in GDP.
 - (e) none of the above
4. If real GDP doubles and the GDP deflator doubles, then nominal GDP will
 - (a) stay the same.
 - (b) double.
 - (c) triple.
 - (d) quadruple.**
5. Which of the following statements is incorrect:

- (a) GDP measures the market value of final goods and services produced in a country during a given time period.
 - (b) sales of used cars, existing homes and other second-hand goods are not included in GDP.
 - (c) **GDP measures the value of all market and non-market goods and services produced during a given time period.**
 - (d) the valued-added approach avoids double counting when GDP is measured.
6. A German citizen buys an automobile produced in Canada by a Japanese company. As a result,
- (a) Canadian net exports increase, Canadian GNP and GDP are unaffected, Japanese GNP increases, German net exports decrease
 - (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.**
 - (d) Canadian net exports, GNP, and GDP are unaffected, Japanese GNP increases, German net exports decrease, and German GDP and GNP fall.
7. Stephan buys a designer dress produced by a Canadian-owned fashion shop in France. As a result, Canadian net exports
- (a) decrease, Canadian GNP increases, but French GDP is unaffected.
 - (b) decrease, Canadian GDP increases, but Canadian GNP is unaffected.
 - (c) **decrease, Canadian GDP decreases, but Canadian GNP is unaffected**
 - (d) are unaffected, Canadian GDP is unaffected, but French GDP increases.
8. Consider two things that might be included in GDP: A. The estimated rental value of owner-occupied housing, and B. Purchases of newly constructed homes
- (a) A is included as consumption, while B is included as investment.
 - (b) **Both A and B are included as consumption.**
 - (c) B is included as consumption, while A is included as investment.
 - (d) Only B is included in GDP and it is included as investment.
9. Determine whether each of the following economic events is included in deriving a country's annual GDP.
- (a) The money received by Helena when she resells this year's Ford Mustang to Marie
 - is not included**
 - is included

- (b) The services of your 15 year old daughter in painting the family home.
is not included
 is included
- (c) The purchase of 100 shares of Bombardier common stock.
is not included (this is merely a transfer of ownership)
 is included
- (d) The income of a dentist
 is not included
is included
- (e) Rent received on a two-bedroom apartment
 is not included
is included
10. A basic measure of the standard of living in a country is
- (a) that country's real GDP
 (b) that country's nominal GDP
 (c) that country's nominal GDP per capita
 (d) **that country's real GDP per capita**
11. Based on your observations and study of economics you know that
- (a) **annual inflation in Canada has averaged about 2.0 percent in the past decade.**
 (b) Canada has experienced falling prices, a deflation, over the past decade.
 (c) annual inflation in Canada in the past decade has averaged about 10 percent.
 (d) Canada has been without inflation, prices have been constant, for the past decade.
12. Over time people have come to rely more on market-produced goods and less on goods that they produce for themselves. For example people eat at restaurants relatively more and prepare their own meals at home relatively less. By itself this change would
- (a) make GDP fall over time.
 (b) not make any change in GDP over time.
 (c) **make GDP rise over time.**
 (d) change GDP, but in an uncertain direction.
13. In the country of Hyrkania, the CPI in 2005 was 140 and the CPI in 2006 was 154. Jake, a resident of Hyrkania, borrowed money in 2005 and repaid the loan in 2006. If the nominal interest rate on the loan was 14 percent, then the real interest rate was

- (a) 18 percent.
 - (b) 14 percent.
 - (c) 10 percent.
 - (d) **4 percent**
 - (e) impossible to determine without knowing the base year for the CPI.
14. Samantha deposits \$2,000 in a saving account that pays an annual interest rate of 5 percent. Over the course of a year the inflation rate is 2 percent. At the end of the year Samantha has
- (a) \$100 more in her account and her purchasing power has increased by about \$40
 - (b) **\$100 more in her account and her purchasing power has increased by about \$60**
 - (c) \$140 more in her account, and her purchasing power has increased about \$100.
 - (d) \$140 more in her account, and her purchasing power has increased about \$40.
 - (e) \$140 more in her account and her purchasing power has increased about \$60.
15. Welfare payments are indexed for inflation using the CPI. A recent newspaper editorial claimed that welfare recipients are harmed by years of low inflation because they do not receive as large an increase in their payments as they do in years of high inflation. Which of the following statements is correct?
- (a) The newspaper editorial is correct under all circumstances.
 - (b) **The newspaper editorial is correct if the market basket consumed by welfare recipients is the same as the market basket used to compute the CPI.**
 - (c) The newspaper editorial is correct if the prices of the goods consumed by welfare recipients increase faster than the prices of the goods in the market basket used to compute the CPI.
 - (d) The newspaper editorial is correct if the prices of the goods consumed by welfare recipients increase slower than the prices of the goods in the market basket used to compute the CPI.
16. Mavis Corporation has an agreement with its workers to completely index the wage of its employees to inflation in the CPI. Mavis currently pays its production line workers \$10 an hour and is scheduled to index their wages today. If the CPI is currently about 120 and was 100 a year ago Mavis should increase the hourly wages of its workers by about
- (a) \$0.58
 - (b) \$0.65.
 - (c) \$1.00

- (d) \$1.20.
 (e) **\$2.00**
17. There are three different ways to measure GDP namely:
- (a) total investment, or total consumption, or total saving.
 - (b) total saving, or total output, or total business profits.
 - (c) **total expenditure, or total production, or total income.**
 - (d) total exports, or total imports, or total business profits.
18. Suppose a country's population grows by 3% while its nominal GDP grows by 6% and the GDP deflator increases from 125 to 127.5, then the standard living as measured by per capita real GDP:
- (a) improves by 2%.
 - (b) falls by about 3%.
 - (c) is unchanged.
 - (d) **improves by about 1%.**
19. Tiffany is offered a job in Winnipeg that pays \$90,000. She is offered a similar job in Montreal for \$60,000. Which set of CPI's would make the two salaries have almost the same purchasing power?
- (a) 90 in Winnipeg and 80 in Montreal
 - (b) 90 in Winnipeg and 72 in Montreal
 - (c) 90 in Winnipeg and 66 in Montreal
 - (d) **60 in Winnipeg and 40 in Montreal**
 - (e) None of the above is correct
20. If real GDP in Ourland in 2007 was \$1.1 million, when real GDP in 2006 had been \$1.0 million, this means that
- (a) **real GDP grew by 10 per cent.**
 - (b) real GDP fell by 11 per cent.
 - (c) real GDP grew by 1.0 per cent.
 - (d) prices increase by 10 per cent
21. If increasing retirements by "baby-boomers" reduce the annual growth rate of the labour force from 3 percent to 2 percent while employment continues to grow by 2.5 percent:
- (a) the unemployment rate will be about 2.5 percent

- (b) the unemployment rate will remain unchanged.
- (c) the unemployment rate will increase by about 2 percent.
- (d) the unemployment rate will fall by about 0.5 percent**

Recall:

$$U = \frac{L - E}{L} = 1 - \frac{E}{L}$$

According to the formula if

$$L \uparrow \text{ by } 2\% \implies U \uparrow \text{ by } 2\%$$

and if

$$E \uparrow \text{ by } 2.5\% \implies U \downarrow \text{ by } 2.5\%$$

Therefore, the total effect is a fall in unemployment rate by about 0.5%.

22. Suppose nominal GDP grew from \$100 billion to \$105 billion and the GDP deflator grew from 110 to 112.2. As a result:
- (a) real GDP declines by about 7.2%
 - (b) real GDP increased by about 3%**
 - (c) real GDP was unchanged
 - (d) real GDP increased by about 5%

23. Suppose that the CPI is calculated using a market basket consisting of 5 apples, 4 loaves of bread, 3 robes and 2 gallons of gasoline. The per-unit prices of these goods have been as follows

Year	Apples	Bread	Robes	Gasoline
2002	\$1.00	\$2.00	\$10.00	\$1.00
2003	\$1.00	\$1.50	\$9.00	\$1.50
2004	\$2.00	\$2.00	\$11.00	\$2.00
2005	\$3.00	\$3.00	\$15.00	\$2.50

Refer to the previous table. What was the inflation rate, as measured by the CPI, between 2002 and 2003?

- (a) -8.89 percent
 - (b) -7.14 percent
 - (c) 3.75 percent
 - (d) 11.25 percent
 - (e) It is impossible to determine without knowing the base year**
24. The table below pertains to an economy with only two goods: books and calculators. The fixed basket consists of 5 book and 10 calculators.

Year	Price of Books	Price of Calculators
2005	\$24	\$8
2006	\$30	\$12
2007	\$12	\$15

Refer to the previous table. Using 2005 as the base year, the consumer price index is

- (a) **100 in 2005, 135 in 2006, and 155 in 2007**
- (b) 100 in 2005, 270 in 2006, and 310 in 2007
- (c) 200 in 2005, 270 in 2006, and 310 in 2007
- (d) 200 in 2005, 540 in 2006, and 620 in 2007
- (e) None of the above
25. Between 2001 and 2002, the country of Aquilonia reported an increase in the number of people who were employed. It also reported an increase in the unemployment rate. Which of the following would best explain the two reports?
- (a) **There was an increase in the size of the labour force between 2001 and 2002.**
- (b) There was a decrease in the size of the labour force between 2001 and 2002.
- (c) There was an increase in the size of the adult population between 2001 and 2002.
- (d) The two reports are contradictory and can't be reconciled.
26. Meredith is looking for work as a computer programmer. Although her prospects are good she hasn't yet taken a job. Julie is looking for work in a steel mill, but there aren't many job ads for steel workers and every time she shows up for an interview, there are many more people than openings.
- (a) Meredith and Julie are both frictionally unemployed.
- (b) **Meredith and Julie are both structurally unemployed.**
- (c) Meredith is frictionally unemployed, and Julie is structurally unemployed.
- (d) Meredith is structurally unemployed, and Julie is frictionally unemployed.
27. Suppose that some people are counted as unemployed when, to maintain unemployment compensation, they search for work only at places where they are unlikely to be hired. If these individuals were counted as out of the labour force instead of as unemployed,
- (a) both the unemployment rate and labour-force participation rate would be higher.
- (b) **both the unemployment rate and labour-force participation rate would be lower.**
- $$\text{Labour force participation rate} = \frac{\text{Labor Force}}{\text{population}}$$
- (c) the unemployment rate would be lower and the labour-force participation rate would be higher.
- (d) the unemployment rate would be higher and the participation rate would be lower.
28. In 2000 in the United Kingdom, the adult population was about 46.5 million, the labour force participation rate was 63.5 percent, and the unemployment rate was 5.8 percent. What was the number of people employed and the number of people unemployed?

- (a) about 29.5 million and 2.7 million.
 - (b) about 29.5 million and 1.7 million.
 - (c) about 27.8 million and 2.7 million.
 - (d) about 27.8 million and 1.7 million.**
 - (e) There is insufficient information to answer this question.
29. If national income is below its equilibrium level, then:
- (a) business will cut production to offset unplanned reductions in inventories, and national income will fall.
 - (b) business will increase production to offset unplanned reductions in inventories and national income will rise**
 - (c) business inventories are at planned levels. There is no incentive to change production and no effect on national income.
 - (d) business will not increase production but households will cut consumption to offset unplanned decreases in inventories and national income will not change.
30. If nominal GDP increases at a rate of 10 per cent per year while the GDP deflator increases at 8 per cent per year, then
- (a) real GDP remains constant.
 - (b) real GDP rises by 10 per cent.
 - (c) real GDP falls by 8 per cent.
 - (d) real GDP rises by 2 per cent.**
31. If potential output is less than short run equilibrium output, eventually the short-run aggregate supply curve will shift:
- (a) left and eliminate the recessionary gap.
 - (b) right and eliminate the recessionary gap.
 - (c) left and eliminate the inflationary gap.**
 - (d) right and eliminate the inflationary gap.
32. The wealth effect indicates that:
- (a) an increase in the price level will increase the demand for money, increase interest rates, and reduce consumption and investment spending.
 - (b) a lower price level will decrease the real value of many financial assets and therefore reduce spending.
 - (c) a higher price level will increase the real value of many financial assets and therefore increase spending.

- (d) a higher price level will decrease the real value of many financial assets and therefore reduce spending.
33. The determinants of aggregate demand:
- (a) explain why the aggregate demand curve is upward sloping.
 - (b) explain shifts in the aggregate demand curve.
 - (c) **demonstrate why real output and the price level are inversely related.**
 - (d) include input prices and resource productivity.
34. The substitution effect suggests that a decrease in the Canadian price level relative to other countries will:
- (a) shift the aggregate demand curve leftward.
 - (b) shift the aggregate supply curve leftward.
 - (c) decrease Canadian net exports.
 - (d) **increase Canadian net exports.**
35. How would a steady decline of the price of steel and electrical components affect aggregate demand or short-run aggregate supply? Show your answer on the following figure

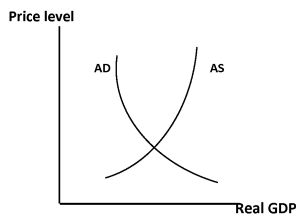


Figure 1

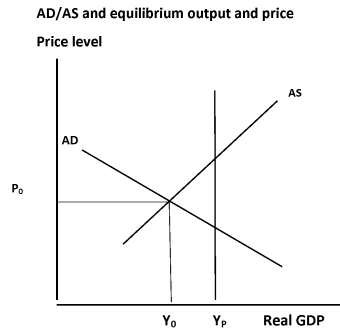
How is the equilibrium price level affected?

- (a) Increases
- (b) **Decreases**
- (c) Indeterminate

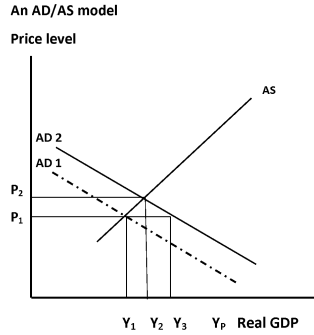
How is the level of real output affected?

- (a) **Increases**
- (b) Decreases
- (c) Indeterminate

36. Refer to Figure 2 below. If the economy in the diagram is at point Y_0 , the output gap would be eliminated in the short run by:



- (a) **an increase in AD**
 - (b) a decrease in AS
 - (c) a decrease in Y_p
 - (d) an increase in the price level
37. The adjustment over time that eliminates an economy's output gaps depends on
- (a) the rate of net indirect taxation
 - (b) the rigidity of wages and prices in the economy
 - (c) **the flexibility of wage rates and prices in the economy**
 - (d) the size of potential GDP



Refer to Figure 3. Based on the AD-AS model illustrated:

- (a) with constant AS conditions as described by AS curve, business cycle fluctuations are caused by fluctuations in AD
 - (b) aggregate demand AD_2 results in equilibrium real GDP Y_2 at P_2
 - (c) a fall in AD from AD_2 to AD_1 would reduce equilibrium real GDP to Y_1 at P_1
 - (d) **all of the above**
39. The positive slope of the short-run aggregate supply curve shows that:
- (a) a lower general price level lowers input prices like money wage rates paid for labour inputs to production.
 - (b) a lower general price level raises interest rates.
 - (c) a higher general price level increases aggregate demand and output
 - (d) **a higher general price level leads producers to expanded output when input prices remain constant**
40. Suppose that money wages rates rise faster than labour productivity increases. Other things equal:
- (a) **the aggregate supply curve will shift up.**
 - (b) the aggregate expenditure curve will shift down.
 - (c) the aggregate supply curve will shift down.
 - (d) the aggregate demand curve will shift to the left.
41. A downward shift in the aggregate supply curve might best be explained by:
- (a) **a decrease in indirect taxes like the GST.**

- (b) a decrease in labour productivity.
 - (c) an increase in money wages rates.
 - (d) an increase in business taxes.
42. A rise in interest rates caused by a change in the general price level would cause a(n):
- (a) increase in aggregate expenditure and a movement along the AD curve.
 - (b) increase in aggregate expenditure and a rightward shift in the AD curve.
 - (c) **decrease in aggregate expenditure and a movement along the AD curve.**
 - (d) a decrease in aggregate expenditure and a rightward shift in AD curve.
43. A rise in the general price level causes a decrease in aggregate expenditure and:
- (a) a leftward shift in the aggregate demand curve.
 - (b) a corresponding increase in the aggregate supply curve.
 - (c) a rightward shift in the aggregate demand curve.
 - (d) **a movement up to the left along a fixed aggregate demand curve.**
44. A short run AS curve giving the relationship between inflation rate and the level of real output
- (a) is downward sloping because lower inflation rates provide incentives to sell more output to maintain revenue growth.
 - (b) **is upward sloping because when inflation rates are higher than rates of increase in wages, prices rise relative to costs and higher output is profitable.**
 - (c) is horizontal because producers are willing to produce whatever level of output is demanded as long as prices are rising at a constant rate.
 - (d) is upward sloping because higher levels of output in the short run require more capital stock to increase production capacity.
45. If the economy suffers from a recessionary gap:
- (a) AS is greater than potential output
 - (b) **AD is lower than required for equilibrium with AS at potential output.**
 - (c) AD is stronger than required for equilibrium at potential output.
 - (d) AD and AS intersect at an equilibrium real GDP higher than potential output