

Instructions: Please fill in your name and student number on every page of the exam questionnaire and on the NCS sheet. Use the NCS sheet to answer the Multiple Choice questions. There are 45 questions in total (43 multiple choice and 2 short-answer questions). This exam has 8 pages—check that this copy has all of them. Good luck

Multiple-Choice Questions (86 points—2 points per question)

Identify the letter of the choice that best completes the statement or answers the question.

1. Which of the following people would **NOT** be included in the labour force?
 - a. Jay, who is on temporary layoff
 - b. Mike, who has retired and is not looking for work
 - c. Jane, who does not have a job, but has applied for several in the last week
 - d. Joan, who has a job but is looking for a new one

2. Which of the following correctly ranks categories from smallest to largest according to recent Canadian statistics?
 - a. unemployed, employed, not in labour force
 - b. unemployed, not in labour force, employed
 - c. not in labour force, employed, unemployed
 - d. not in labour force, unemployed, employed

Table 1. This table shows the 2007 data for males and females aged 15 and over in the country of Dan.

Not in the Labour Force		Unemployed		Employed	
<i>Male</i>	<i>Female</i>	<i>Male</i>	<i>Female</i>	<i>Male</i>	<i>Female</i>
45 million	35 million	5 million	5 million	85 million	65 million

3. **Refer to Table 1.** 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

4. What is a rough estimate of the natural rate of unemployment in Canada
 - a. 1 to 2.5 percent
 - b. 3 to 5.5 percent
 - c. 6 to 8 percent
 - d. 8.5 to 11 percent

5. If an unemployed person quits looking for work, *ceteris paribus*, which of the following best describes the changes in the labour statistics?
 - a. The unemployment rate decreases, and the labour-force participation rate increases.
 - b. The unemployment rate decreases, and the labour-force participation rate decreases.
 - c. The unemployment rate stays the same, and the labour-force participation rate decreases.
 - d. The unemployment rate and the labour-force participation rate stay the same.

6. Which of the following is most likely to cause frictional unemployment?
 - a. the minimum wage
 - b. a worker leaving a job to find one with better benefits
 - c. labour unions
 - d. an increase in the income tax

7. What impact do employment insurance and unions have on unemployment?
 - a. Unemployment insurance and unions both create structural unemployment.
 - b. Unemployment insurance and unions both create frictional unemployment.
 - c. Unemployment insurance creates frictional unemployment and unions create structural unemployment.
 - d. Unemployment insurance creates structural unemployment and unions create frictional unemployment.

8. In 2000 in Japan, based on concepts similar to those used to compute Canadian employment statistics, the unemployment rate was about 4.8 percent, the labour force participation rate was about 62 percent, and the adult population was about 108 million. How many people were employed?
 - a. about 52 million
 - b. about 64 million
 - c. about 67 million
 - d. about 103 million

9. Between 2006 and 2007, 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 2006 and 2007.
 - b. There was a decrease in the size of the labour force between 2006 and 2007.
 - c. There was an increase in the size of the adult population between 2006 and 2007.
 - d. The two reports are contradictory and cannot be reconciled.

10. According to Statistics Canada data, which of the following categories had the highest percentage of the labour force in 2009?
 - a. unemployed 1 to 4 weeks
 - b. unemployed 5 to 13 weeks
 - c. unemployed 14 to 25 weeks
 - d. unemployed 26 to 52 weeks

11. Who owns the Bank of Canada?
 - a. private individuals
 - b. the Queen
 - c. the commercial banks
 - d. the federal government of Canada

12. How do deposits and reserves appear on a bank's T-account?
 - a. Both deposits and reserves are assets.
 - b. Both deposits and reserves are liabilities.
 - c. Deposits are assets and reserves are liabilities.
 - d. Reserves are assets and deposits are liabilities.

13. When a bank loans out \$1000, what happens to the money supply?
 - a. It does not change.
 - b. It decreases.
 - c. It increases.
 - d. It has an indeterminate effect on the money supply.

Use the balance sheet for the following questions.

Table 2

<u>Last Bank of Cedar Bend</u>			
Assets		Liabilities	
Reserves	\$25 000	Deposits	\$180 000
Loans	\$155 000		

14. Refer to Table 2. If the Last Bank of Cedar Bend is holding \$5000 in excess reserves, what is the reserve requirement?
- 1/7
 - 1/8
 - 1/9
 - 1/10
15. Suppose a bank uses \$100 of its \$500 excess reserves to make a new loan when the reserve ratio is 20 percent. How does this action by itself initially change the money supply?
- The money supply increases by \$80.
 - The money supply decreases by \$80.
 - The money supply increases by \$100.
 - The money supply decreases by \$100.
16. If the reserve ratio is 15 percent, by how much will an additional \$1000 of reserves increase the money supply?
- \$1176
 - \$1275
 - \$5667
 - \$6667
17. Which of the following best describes the consequences of open market sales conducted by the Bank of Canada?
- Bank reserves increase and the money supply increases.
 - Bank reserves increase and the money supply decreases.
 - Bank reserves decrease and the money supply increases.
 - Bank reserves decrease and the money supply decreases.
18. During recessions, banks typically choose to hold more excess reserves relative to their deposits. Which of the following best describes the effects of the increase in reserves?
- The money multiplier increases, and the money supply increases.
 - The money multiplier decreases, and the money supply decreases.
 - The money multiplier does not change, but the money supply increases.
 - The money multiplier does not change, but the money supply decreases.
19. Which of the following does M1 include?
- currency
 - savings deposits
 - travellers' cheques
 - foreign currency accounts
20. If a central bank wanted to increase the money supply, which of the following would it most likely do?
- It would make open market purchases and lower the bank rate.
 - It would make open market sales and lower the bank rate.
 - It would make open market purchases and raise the bank rate.
 - It would make open market sales and raise the bank rate.

21. Which of the following events took place in the early 1920s in Germany?
 - a. deflation that proved detrimental to farmers
 - b. an aversion to inflation by policymakers that kept wages stagnant
 - c. an unexpected drop in inflation that hurt borrowers
 - d. an extraordinarily high rate of inflation

22. When the money market is depicted in a graph with the value of money on the vertical axis, as the price level increases, which of the following happens to the value of money?
 - a. It increases, so the quantity of money demanded increases.
 - b. It increases, so the quantity of money demanded decreases.
 - c. It decreases, so the quantity of money demanded decreases.
 - d. It decreases, so the quantity of money demanded increases.

23. When the money market is represented in a diagram with the value of money on the vertical axis, which of the following best describes the effects of an increase in money supply?
 - a. It increases the price level and the value of money.
 - b. It increases the price level and decreases the value of money.
 - c. It decreases the price level and increases the value of money.
 - d. It decreases the price level and the value of money.

24. Your boss gives you an increase in the number of dollars you earn per hour. How does this change your nominal and real wages?
 - a. This increase in pay makes your nominal wage increase. If your nominal wage rose by a greater percentage than the price level, then your real wage also increased.
 - b. This increase in pay makes your nominal wage increase. If your nominal wage rose by a greater percentage than the price level, then your real wage decreased.
 - c. This increase in pay makes your real wage increase. If your real wage rose by a greater percentage than the price level, then your nominal wage also increased.
 - d. This increase in pay makes your real wage decrease. If your real wage rose by a greater percentage than the price level, then your nominal wage decreased.

25. According to the classical dichotomy, when the money supply doubles, which of the following also double(s)?
 - a. the price level and nominal GDP
 - b. the price level and real GDP
 - c. only real GDP
 - d. only the price level

26. The money supply in Freedonia is \$100 billion. Nominal GDP is \$800 billion, and real GDP is \$200 billion. What is the price level in Freedonia?
 - a. 1
 - b. 2
 - c. 4
 - d. 8

27. If a country had deflation, how would the nominal interest rate compare to the real interest rate?
 - a. The nominal interest rate would be greater than the real interest rate.
 - b. The real interest rate would be greater than the nominal interest rate.
 - c. The real interest rate would equal the nominal interest rate.
 - d. There is insufficient information to answer the question.

28. If the money supply growth rate permanently increased from 5 percent to 30 percent, all other things equal, which of the following would we expect to happen to inflation?
- It would increase by more than 25 percentage points.
 - It would increase by 25 percentage points.
 - It would increase by less than 25 percentage points.
 - It would decrease by more than 25 percentage points.
29. Suppose that velocity and output are constant and that the quantity theory and Fisher effect are both correct. If the nominal interest rate is 8 percent and inflation is 3 percent, what is the money supply growth rate or the real interest rate?
- The money supply growth rate is 3 percent.
 - The real interest rate is 11 percent.
 - The real interest rate is 8 percent.
 - The money supply growth rate is 11 percent.
30. Which of the following do shoeleather costs refer to?
- the cost of more frequent price changes induced by higher inflation
 - the distortion in resource allocation created by distortions in relative prices due to inflation
 - resources used to maintain lower money holdings when inflation is high
 - the distortion in incentives created by inflation by taxes that do not adjust for inflation
31. You put money in an account and earn a real interest rate of 10 percent, inflation is 3 percent, and your marginal tax rate is 40 percent. Which of the following is your after-tax real rate of interest?
- 4.8 percent
 - 3.2 percent
 - 2.8 percent
 - 1.8 percent
32. Roger lives in Iceland and purchases a snowmobile manufactured in Canada. Which of the following is this purchase?
- both a Canadian and an Icelandic export
 - both a Canadian and an Icelandic import
 - a Canadian import and an Icelandic export
 - a Canadian export and an Icelandic import
33. Which of the following would be Canadian foreign direct investment?
- A Polish company opens a shipbuilding plant in Canada.
 - A Bolivian bank buys Canadian corporate bonds.
 - A Canadian bank buys Bolivian corporate bonds.
 - A Canadian canning factory opens a plant in Ecuador.
34. Suppose Paul, a Romanian citizen, builds a telescope factory in Israel. Which of the following correctly identifies the effects of these expenditures?
- They increase Romanian and Israeli net capital outflow.
 - They increase Romanian net capital outflow, but decrease Israeli net capital outflow.
 - They decrease Romanian net capital outflow, but increase Israeli net capital outflow.
 - They increase Romanian net capital outflow, but Israeli net capital outflow remain unchanged.

35. Tony, a Canadian citizen, uses some previously obtained Portuguese currency (escudo) to purchase a bond issued by a Portuguese company. How does this transaction affect Canadian net capital outflow?
- It increases Canadian net capital outflow by more than the value of the bond.
 - It increases Canadian net capital outflow by the value of the bond.
 - It does not change Canadian net capital outflow.
 - It decreases Canadian net capital outflow.
36. How has Canadian national saving changed in recent history?
- It remained positive from 1999 to 2008.
 - It decreased below 10 percent toward the end of the 1990s.
 - It had a historic high in early 1990s.
 - It has been decreasing since 1991.
37. Between 1981 and 1988, which of the following caused most of the change in Canadian net capital outflow as a percent of GDP?
- decrease in Canadian investment
 - decrease in Canadian national saving
 - increase in Canadian investment
 - decrease in Canadian investment
38. Suppose that a bushel of wheat costs \$5 in Canada and costs 50 pesos in Mexico. If the nominal exchange rate is 30 pesos per dollar, what is the real exchange rate?
- 1/3
 - 1
 - 3
 - 10
39. If the Canadian real exchange rate appreciates, which of the following most likely happen?
- Net exports increase, and net capital outflow decreases.
 - Net exports decrease, and net capital outflow increases.
 - Net exports and net capital outflow both increase.
 - Net exports and net capital outflow both decrease.
40. According to the theory of purchasing-power parity, what must the nominal exchange rate between two countries reflect?
- the different price levels in those countries
 - the different resource endowments in those countries
 - the different income levels in those countries
 - the different standards of living between those countries
41. On behalf of your firm, you make frequent trips to Hong Kong. You notice that you always have to pay more dollars to get enough local currency to get your hair styled than you have to pay to get your hair styled in Canada. Is this consistent with purchasing power parity?
- No, but it might be explained by limited opportunities for arbitrage across international borders.
 - Yes, if prices in Hong Kong are rising more rapidly than prices in Canada.
 - Yes, if prices in Hong Kong are rising less rapidly than prices in Canada.
 - No, but it can be explained by arbitrage across international borders.

Use the hypothetical information in the following table to answer the following questions.

Table 3

Country	Currency	Currency per Canadian Dollar	Canadian Price Index	Country Price Index
Bolivia	Boliviano	8.00	100	800
Japan	Yen	125.00	100	25 000
Morocco	Dinar	10.00	100	1 000
Norway	Kroner	6.5	100	750
Thailand	Baht	40.00	100	3 500

42. **Refer to Table 3.** For which countries in the table does purchasing-power parity hold?
- Bolivia and Japan
 - Bolivia and Morocco
 - Japan and Morocco
 - Norway and Thailand
43. **Refer to Table 3.** Assume that there are no transportation costs or trade restrictions. With which of the following countries can arbitrageurs make a profit?
- Bolivia and Morocco
 - Japan, Norway, and Thailand
 - Japan and Norway
 - Thailand

Short-Answer Questions (14 points)

Answer in the space provided

44. (4 points) During the financial crisis of 2007-2008, the governor of the Bank of Canada expressed concern that the commercial banks were « hoarding » cash rather than extending a more appropriate volume of loans. Why might the banks do this, and what is the implication for the money supply?

