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Student Number: _____

ECO1102G, Introduction to Macroeconomics
Professor G. Lenjosek
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Instructions

1. Silence all cell phones and any other devices, and remain quiet at all times during the exam.
2. Only non-programmable calculators may be used during the exam. You may NOT share non-programmable calculators.
3. Place your student card face up on your desk for the duration of the exam.
4. This questionnaire is printed *double sided*. Fill in your name and student number on the first page of *this questionnaire*. You may use the detachable blank sheet at the end of the questionnaire for your rough work.
5. Print the COURSE CODE, your STUDENT NUMBER and your LAST NAME ONLY on the *Answer Sheet* provided. Then blacken the cells (little ovals) using a pencil. Exams with missing or incomplete personal information will not be graded.
6. There are 50 multiple choice questions in total, each worth 1 point. Make sure your copy is complete.
7. Use the Answer Sheet to answer the Multiple Choice questions. *Do so by identifying the letter of the choice that best completes the statement or answers the question.*
8. When you have finished, personally hand your *completed Answer Sheet and questionnaire* to one of the TAs or me.
9. Please look at the blackboard from time to time for information and/or possible corrections.

You have 80 minutes to complete the exam. Good luck !!

Table 1

This table shows the 2013 data for males and females aged 15 and over in the country of Bolivar.

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

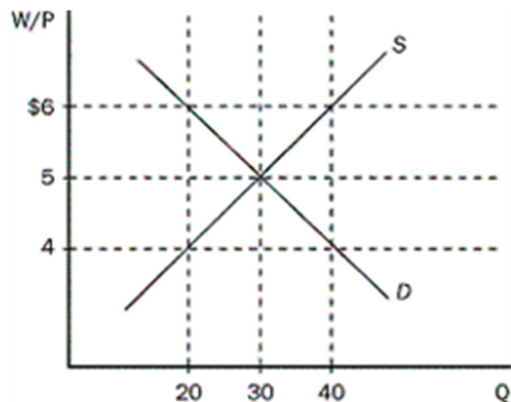
1. **Refer to the Table 1.** What is the adult female unemployment rate in Bolivar?
 - a. 4.76 percent
 - b. 5.56 percent
 - c. 7.14 percent**
 - d. 8.33 percent
2. Suppose the nominal exchange rate between the yen and the U.S. dollar is 260 yen per U.S. dollar, and that the nominal exchange rate between the Canadian dollar and the U.S. dollar is 1.30 Canadian dollars per U.S. dollar. How many yen would it take to buy a Canadian dollar?
 - a. 0.005
 - b. 0.5
 - c. 100
 - d. 200**
3. What does a trade deficit imply?
 - a. saving is greater than domestic investment and $Y > C + I + G$
 - b. saving is less than domestic investment and $Y < C + I + G$**
 - c. saving is greater than domestic investment and $Y < C + I + G$
 - d. saving is less than domestic investment and $Y > C + I + G$
4. Consider these facts: (1) Some people who are employed or who are not making a serious effort to find employment will report themselves as unemployed. (2) Some people who want to find work will be counted as out of the labour force. How do these facts affect the reported unemployment rate?
 - a. The first fact tends to make the reported unemployment rate higher than the actual unemployment rate. The second fact tends to make the reported unemployment rate lower than the actual rate.**
 - b. Both the first and the second facts tend to make the reported unemployment rate lower than the actual unemployment rate.
 - c. The first fact tends to make the reported unemployment rate lower than the actual unemployment rate. The second fact tends to make the reported unemployment rate higher than the actual rate.
 - d. Both the first and the second facts tend to make the reported unemployment rate higher than the actual unemployment rate.
5. According to the classical dichotomy, what is NOT influenced by monetary factors?
 - a. the nominal interest rate
 - b. the price level
 - c. the nominal GDP
 - d. the real wage rate**

6. Assuming that V is constant, what could result from an increase in M in the quantity equation?
- a decrease in the price level
 - an increase in the price level**
 - an increase in real GDP
 - a decrease in nominal GDP
7. A bank has (in millions): \$200 reserves, \$800 loans, \$400 securities, \$1100 deposits, \$100 debt, and \$200 capital. How much is the bank's leverage ratio?
- 0.07
 - 0.17
 - 7**
 - 14
8. You put money in an account that earns 8 percent. The inflation rate is 4 percent, and your marginal tax rate is 10 percent. What is your after-tax real rate of interest?
- 1.0 percent
 - 3.2 percent**
 - 3.3 percent
 - 3.4 percent
9. During recessions, banks typically choose to hold more excess reserves relative to their deposits. Which statement best describes the effects of the increase in reserves?
- The money multiplier decreases, and the money supply decreases.**
 - The money multiplier does not change, but the money supply increases.
 - The money multiplier increases, and the money supply increases.
 - The money multiplier does not change, but the money supply decreases.
10. In 2014 in the United Kingdom, the adult population was about 65 million, the labour force participation rate was 62 percent, and the unemployment rate was 5.7 percent. What was the number of people unemployed?
- 0.7 million
 - 1.7 million
 - 2.3 million**
 - 6.5 million
11. Suppose the banking system has \$10 million in reserves and the reserve ratio is 25 percent. Then bankers decide to decrease the reserve ratio to 20 percent. How does this decision eventually change the money supply?
- increases by \$0.5 million
 - increases by \$5 million
 - increases by \$10 million**
 - increases by \$20 million

12. Which statement best describes the impact of open-market purchases by the Bank of Canada?
- The money supply decreases, which makes the value of money increase.
 - The money supply increases, which makes the value of money decrease.
 - The money supply and the value of money decrease.
 - The money supply and the value of money increase.
13. The money supply in Freedonia is \$100 billion. Nominal GDP is \$800 billion and real GDP is \$400 billion. The central bank of Freedonia has instituted a policy of zero inflation. Assuming that velocity is stable, if real GDP grows by 20 percent this year, how will the central bank of Freedonia change the money supply this year?
- It will reduce the money supply by 20 percent.
 - It will increase the money supply by 20 percent.
 - It will not change the money supply at all.
 - It will increase the money supply by 2.0 percent.
14. When the Bank of Canada conducts open-market purchases, how do commercial banks' assets most likely change?
- Reserves increase, and banks decrease lending.
 - Reserves decrease, and banks increase lending.
 - Reserves increase, and banks increase lending.
 - Reserves decrease, and banks decrease lending.
15. Suppose Canada sells goose down parkas to the United States. What are the effects of this transaction?
- U.S. net exports decrease, and U.S. net capital outflow decreases.
 - U.S. net exports decrease, and U.S. net capital outflow increases.
 - U.S. net exports increase, and U.S. net capital outflow decreases.
 - U.S. net exports increase, and U.S. net capital outflow increases.
16. Suppose the price of a standard pair of sport shoes is €60 in Spain and \$85 in Canada, and the current exchange rate is 0.75 euro for one dollar. What is the purchasing-power parity exchange rate of the dollar?
- 0.40 euro/dollar
 - 0.53 euro/dollar
 - 0.71 euro/dollar
 - 1.53 euro/dollar
17. Which group has the highest unemployment rate in Canada?
- males, 45–64 years
 - females, 25–44 years
 - females, 45–64 years
 - males, 25–44 years

Figure 1

This figure shows the effect of a minimum-wage law.



18. **Refer to the Figure 1.** If there was a minimum wage of \$4 and then the government eliminated the minimum wage, what would happen to unemployment in this market?
- Unemployment would be unchanged.
 - Unemployment would rise by 10.
 - Unemployment would drop by 20.
 - Unemployment would rise by 20.
19. Which inflation cost matters even if actual inflation and expected inflation are the same?
- menu costs
 - losses in tax revenue
 - production costs
 - losses in real income
20. Which list ranks the Bank of Canada's monetary policy tools from most to least frequently used?
- bank rate changes; reserve requirement changes; open-market transactions
 - open-market transactions; reserve requirement changes; bank rate changes
 - bank rate changes; open-market transactions; reserve requirement changes
 - open-market transactions; bank rate changes; reserve requirement changes
21. Suppose that the Government of Canada unexpectedly decided to pay off its debt by printing new money. What would happen?
- People who lent money at a fixed interest rate would feel richer.
 - People who held government bonds would feel richer.
 - People who held money would feel richer.
 - People who borrowed money at a fixed interest rate would feel richer.

22. In Wellville, the money supply is \$80,000 and reserves are \$12,800. Assuming that people hold only deposits and no currency, and that banks hold only required reserves, what is the required reserve ratio?
- 12 percent
 - 14.5 percent
 - 16 percent
 - 29 percent
23. At one time, the country of Aquilonia had no banks, but had currency of \$10 million. Then a banking system was established with a reserve requirement of 10 percent. The people of Aquilonia deposited half of their currency into the banking system. If banks do not hold excess reserves, what is Aquilonia's money supply now?
- \$10 million
 - \$11 million
 - \$50 million
 - \$55 million
24. Which list contains only actions that increase the money supply?
- raising the bank rate; making open-market sales
 - lowering the bank rate; making open-market sales
 - raising the bank rate; making open-market purchases
 - lowering the bank rate; making open-market purchases

Table 2

Last Bank of Panorama Springs			
Assets		Liabilities	
Reserves	\$25,000	Deposits	\$175,000
Loans	\$150,000		

25. **Refer to the Table 2.** If the reserve requirement is 12 percent, what is the state of this bank?
- It can make a new loan of \$17,500.
 - It has excess reserves of more than \$5000.
 - It has less reserves than required.
 - It has excess reserves of less than \$5000.
26. When unions raise wages in some sectors of the economy, what happens to the supply of labour in other sectors of the economy?
- It increases, raising wages in industries that are not unionized.
 - It decreases, reducing wages in industries that are not unionized.
 - It increases, reducing wages in industries that are not unionized.
 - It decreases, raising wages in industries that are not unionized.

27. Which of the following is most likely to reduce the natural rate of unemployment?
- a. the Internet providing more readily available information about available jobs
 - b. passing laws that make it more difficult to monitor the efforts of workers
 - c. firms offering higher-than-equilibrium wages to reduce worker turnover
 - d. provincial legislators voting for increasing the minimum wage
28. Which cause of unemployment is NOT associated with an excess supply of labour?
- a. efficiency wages
 - b. unions
 - c. minimum-wage laws
 - d. job search
29. An assistant professor of economics gets a \$100-a-month raise, but then she figures that with her current monthly salary she can't buy as many goods as she could last year. What has happened to her real and nominal wage?
- a. Her real wage has risen, but her nominal wage has fallen.
 - b. Her real and nominal wages have risen.
 - c. Her real and nominal wages have fallen.
 - d. Her real wage has fallen, but her nominal wage has risen.
30. Suppose that consumers decide to buy more Blu-Ray players and fewer DVD players. As a result, Blu-Ray companies expand production while DVD companies lay off workers. What is this an example of?
- a. frictional unemployment created by a sectoral shift in demand
 - b. structural unemployment created by efficiency wages
 - c. cyclical unemployment created by a recession
 - d. frictional unemployment created by a sectoral shift in supply
31. Suppose the real exchange rate is 2 litres of U.S. gasoline per litre of Canadian gasoline, 1 litre of U.S. gasoline costs \$0.45 U.S., and a litre of Canadian gas costs \$1.30 Canadian. What is the nominal exchange rate?
- a. 0.38 U.S. dollars per Canadian dollar
 - b. 0.45 U.S. dollars per Canadian dollar
 - c. 0.69 U.S. dollars per Canadian dollar
 - d. 1.30 U.S. dollars per Canadian dollar
32. What concept implies that the real interest rate in Canada should equal that in the rest of the world?
- a. interest rate parity
 - b. Ricardian equivalence
 - c. purchasing-power parity
 - d. Fisher effect

33. If the Canadian real exchange rate appreciates, what will most likely happen?
- Net exports and net capital outflow both increase.
 - Net exports increase, and net capital outflow decreases.
 - Net exports and net capital outflow both decrease.
 - Net exports decrease, and net capital outflow increases.
34. If the exchange rate changes from 130 yen per dollar to 150 yen per dollar, what has happened to the dollar?
- It has depreciated and so buys fewer Japanese goods.
 - It has appreciated and so buys more Japanese goods.
 - It has appreciated and so buys fewer Japanese goods.
 - It has depreciated and so buys more Japanese goods.
35. Suppose Paul, a Romanian citizen, builds a telescope factory in Israel. What are the effects of these expenditures?
- 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 remains unchanged.
 - They increase Romanian and Israeli net capital outflow.
36. When Arnold uses dollars to record his income and expenses, how is he using money?
- as a means of payment
 - as a medium of exchange
 - as a store of value
 - as a unit of account
37. Over the past 100 years, what was the approximate average annual inflation rate in Canada as measured by the CPI?
- 2 percent
 - 3 percent
 - 4 percent
 - 6 percent
38. Which statement best defines the velocity of money?
- It is the rate at which the central bank puts money into the economy.
 - It is the money supply divided by nominal GDP.
 - It is the long-term growth rate of the money supply.
 - It is the average number of times per year a dollar is spent.
39. What does the quantity theory of money try to explain?
- the relationship between the quantity of money and the price level
 - the determinants of relative prices in the economy
 - the relationship between inflation and unemployment
 - how inflation determines economic growth

Table 3

The following information pertains to the Bank of Kamloops.

Assets		Liabilities	
Reserves	\$120	Deposits	\$1200
Loans	\$1080		

40. **Refer to the Table 3.** Assume that all other banks hold only the required 5 percent of deposits as reserves and people hold only deposits and no currency. If the Bank of Kamloops decides to hold exactly 5 percent in reserves, by how much would the economy's money supply increase?
- \$500
 - \$1200**
 - \$1500
 - \$2000
41. What does the Bank of Canada NOT do?
- control the supply of money
 - control the value of money
 - regulate the banking system
 - make loans to individuals**
42. What is the approximate labour-force participation rate of the Canadian adult population (aged 15 and over)?
- 47 percent
 - 55 percent
 - 66 percent**
 - 75 percent
43. About what fraction of unemployed persons have been unemployed for less than a month?
- 1/3**
 - 2/3
 - 3/4
 - 4/5
44. Which of the following is a sterilization operation that supports the Canadian dollar?
- The Bank of Canada buys U.S. dollars and sells government bonds.
 - The Bank of Canada buys both U.S. dollars and government bonds.
 - The Bank of Canada sells U.S. dollars and buys government bonds.**
 - The Bank of Canada sells both U.S. dollars and government bonds.

45. Velocity in the country of Nemedra is always stable. In 2014, the money supply was \$100 billion and real GDP was \$300 billion. In 2015, the money supply increased by 10 percent, real GDP increased by 5 percent, and nominal GDP equalled \$660 billion. By how much did the price level increase between 2014 and 2015?
- 2.38 percent
 - 4.76 percent**
 - 9.50 percent
 - 10.0 percent
46. Since World War II, what has happened to the labour-force participation rate?
- It increased for women and decreased for men.**
 - It decreased for women and increased for men.
 - It has increased for both men and women.
 - It has decreased for both men and women.
47. A German company sells vehicles to a dealership in Canada. Which statement best identifies the effects of these transactions?
- They increase Canadian net exports and decrease German net exports.
 - They decrease Canadian net exports and increase German net exports.**
 - They increase Canadian and German net exports.
 - They have no effect on Canadian net exports, and they increase German net exports.
48. What is the name of the one-for-one adjustment of the nominal interest rate to the inflation rate?
- the Hume effect
 - the Ricardian equivalence effect
 - the Keynes effect
 - the Fisher effect**
49. What impact does employment insurance have on the labour market?
- It increases successful search efforts and reduces unemployment.
 - It reduces discouraged search efforts and lowers unemployment.
 - It increases search effort and increases unemployment.
 - It reduces search effort and raises unemployment.**
50. John, a Canadian citizen, opens up a 70s-style dance club in Tokyo. What is this an example of?
- Canadian foreign portfolio investment
 - Canadian foreign direct investment**
 - Canadian exports
 - Canadian imports

