

**Concordia University**  
**Introduction to Macroeconomics**  
**ECON 203/4 J - Version 1**  
**13 February, 2014**  
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**ECON203 - Midterm Exam (100 marks)**

**Multiple Choice - 30 marks** (*Identify the letter of the choice that best completes the statement or answers the question. Place your answers on the bubble sheet as only those answers will be marked.*)

- \_\_\_\_\_ 1. Which of the following is the consumer price index used for?
- to track changes in the stock market
  - to monitor changes in the cost of living
  - to track changes in the level of wholesale prices in the economy
  - to monitor changes in the level of real GDP
- \_\_\_\_\_ 2. Prices of shoes imported from Australia increase. What happens to Canada's GDP deflator and CPI?
- The GDP deflator does not change, the CPI increases.
  - The GDP deflator decreases, the CPI increases.
  - The GDP deflator decreases, the CPI decreases.
  - The GDP deflator does not change, the CPI decreases.
- \_\_\_\_\_ 3. How would receiving an inheritance affect total consumption?
- It is unaffected because consumption is only a function of income.
  - It increases autonomous consumption.
  - It increases savings, and decreases consumption.
  - It increases the marginal propensity to consume.
- \_\_\_\_\_ 4. Which of the following best characterises the aggregate-demand curve?
- The substitution effect
  - The interest rate effect
  - The wealth effect
  - All of the above
- \_\_\_\_\_ 5. Which of the following best explains how unemployment relates to business cycles?
- Unemployment only exists during periods of economic slowdown.
  - Unemployment is unrelated to short-run economic fluctuations.
  - Unemployment can be completely eliminated through economic policies when the economy grows at normal rates.
  - Cyclical unemployment is inversely related to short-run economic fluctuations.
- \_\_\_\_\_ 6. Which of the following does *not* determine the long-run level of real GDP?
- The availability of natural resources.
  - The supply of labour
  - The price level.
  - The availability of technology.

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- \_\_\_\_\_ 7. If  $Y > AE$ , which of the following statements is correct?
- Leakages are less than injections.
  - Potential output is bigger than short-run equilibrium output.
  - Unplanned inventories increase.
  - Expenditure is greater than income.
- \_\_\_\_\_ 8. Professor Tootie, a Canadian citizen, works in the US but lives in Canada. How does his employment affect GDP and GNP?
- It lowers US GDP because he takes his income out of the US.
  - It raises Canadian GNP because he earns income abroad.
  - It raises Canadian GDP because he spends part of his income in Canada.
  - It lowers Canadian GNP because he earns income abroad.
- \_\_\_\_\_ 9. How is a college student who is not working or looking for a job counted?
- as unemployed, but not in the labour force
  - as neither employed nor part of the labour force
  - as unemployed and in the labour force
  - as employed and in the labour force
- \_\_\_\_\_ 10. A firm produces consumer goods and adds some to inventory in the third quarter. In the fourth quarter, the firm sells the goods at a retail outlet. As a result of these actions, what happens to the consumption and investment components of GDP in the fourth quarter?
- Investment increases, consumption decreases.
  - Investment decreases, consumption increases.
  - Investment decreases, consumption does not change.
  - Investment does not change, consumption increases.

**True/False - 10 marks** (*For each of the following statements, identify whether it is true or false. Marks will be awarded for the accuracy of your statement and for your explanation. Answer both questions in the exam booklet.*)

- \_\_\_\_\_ 1. T/F: Assume that savings and investment are constant. Governments that run large budget deficits also run large trade deficits ( $NX < 0$ ). (*Hint: Use the injections and leakages equation developed in class.*) (5 marks)
- \_\_\_\_\_ 2. T/F: The unemployment rate tends to *overstate* the true situation because discouraged workers are not counted in the unemployment statistics. (*Hint: You can test it with a numerical example.*) (5 marks)

**Problem - 60 marks** (*Answer all questions in the exam booklet.*)

- Using a suitably-labelled aggregate-supply and aggregate-demand diagram, illustrate how the following scenarios would affect US equilibrium GDP, unemployment and the price level in both the short run and long run. Unless otherwise stated, start from long-run equilibrium.
  - Recent political unrest in major oil exporting countries in the Middle East has caused oil prices to increase, harming firms reliant on oil like those in the US and Europe. (5 marks)
  - The Bush administration ran the largest budget deficits seen in the previous 40 years. All of this occurred during a period of economic expansion. (*Start from an inflationary gap.*) (5 marks)

2. The economy of Hapolonia produces and consumes only two goods: food and entertainment. The following table shows quantities and prices for three years: 2010, 2011 (the base year) and 2012.

Item	2010		2011		2012	
	Quantity (units)	Price (\$/unit)	Quantity (units)	Price (\$/unit)	Quantity (units)	Price (\$/unit)
Food	1000	295	1000	280	1050	297
Entertainment	780	25	700	24	785	25

- Using the base year basket, compute the CPI for 2011 and 2012. **(5 marks)**
  - Compute the GDP deflator for 2010 and 2011. **(5 marks)**
  - Compute the inflation rate between 2010 and 2011 using the GDP deflator. **(3 marks)**
  - Compute the growth rate in real GDP and in nominal GDP between 2011 and 2012. **(8 marks)**
  - Briefly* explain why the growth rates differ. (Maximum 10-20 words.) **(4 marks)**
3. Consider the following economy:  
 $C = 45 + 0.8Y_D$ ,  $I = 35$ ,  $G = 40$ ,  $NT = 0.1Y$ ,  $X = 40$ ,  $M = 20 + 0.12Y$  and  $Y_p = 300$ .  
**Correction: Autonomous import is 10 (instead of 20)**
- Write down the equation for aggregate expenditure and then use this equation to calculate the equilibrium output. **(5 marks)**
  - What type of gap exists and how big is it? **(4 marks)**
  - By how much and in what direction should the government change its expenditure for the economy to reach potential output? (*Hint: First calculate the multiplier.*) **(5 marks)**
  - Write the government's budget plan before and after intervention and also calculate the budget balance before and after its intervention. Be sure to mention if there is a deficit or surplus for each case. **(8 marks)**
  - Calculate the structural budget balance after government's intervention. Be sure to mention if there is a deficit or surplus. **(3 marks)**