

ECO1102E, Practice 2nd Midterm Exam, Winter 2018**Multiple Choice**

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

1) In general, it is easier to:

- A) adjust final prices rather than input prices.
- B) change input prices than wage rates for employees.
- C) change wage rates for employees than other input prices.
- D) adjust input prices rather than final prices.

2) If a hurricane were to wipe out the majority of the eastern seaboard in Canada, it would likely cause a:

- A) short-run supply shock.
- B) long-run demand shock.
- C) long-run supply shock.
- D) short-run demand shock.

3) In the long run, a year-long drought that destroys most of the summer's wheat crops causes:

- A) permanently lower output.
- B) permanently lower prices.
- C) permanently higher prices.
- D) lower output and higher prices in the short run.

4) As the Canadian price level decreases, expenditures by which of the following will remain unaffected?

- A) Businesses
- B) Consumers
- C) Government
- D) The rest of the world

5) In macroeconomics, the long run is determined by:

- A) how long it takes for prices to adjust through the whole economy.
- B) the longest contract length of a business.
- C) how long it takes for firms to vary all input quantities.
- D) None of these is true.

6) The government might increase its spending to end a recession because:

- A) the economy experiences lower prices at the long-run equilibrium.
- B) the economy enjoys a higher level of output in the long run.
- C) allowing the short-run aggregate supply to adjust back to the long-run can take a long time.
- D) None of these justify why the government might change its spending to end a recession.

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7) Some call the Great Recession:

- A) the recession that began in 2007 due to the decline in consumer spending when the housing bubble burst.
- B) the period of high inflation that took place in the early 1970s.
- C) the period of economic stagnation that took place in the early 1990s.
- D) the period when the economy does not grow for four consecutive quarters.

8) An aggregate supply curve that slopes upward must be:

- A) an individual firm's supply curve.
- B) a short-run curve.
- C) an individual industry's supply curve.
- D) a long-run curve.

9) When the economy fluctuates around its long-run aggregate supply:

- A) the economy is in a state of chaos.
- B) the value of currency becomes unstable.
- C) it is called the business cycle.
- D) None of these is true.

10) One way the government can boost the economy out of a recession is:

- A) with public announcements telling the public to save their money.
- B) by increasing government spending.
- C) by setting price ceilings on most goods so people can afford them.
- D) None of these will help an economy in recession.

11) Because the prices of final goods and services tend to increase more quickly than the prices of inputs, the short run aggregate supply curve is:

- A) perfectly inelastic.
- B) perfectly elastic.
- C) downward sloping.
- D) upward sloping.

12) In the macroeconomic model of aggregate supply and aggregate demand, price is:

- A) represented by GDP.
- B) the measure of the value of all goods and services produced by the economy.
- C) calculated as a weighted average of the prices of all goods and services.
- D) None of these is true.

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13) When the long-run aggregate supply curve shifts right, it represents:

- A) negative inflation.
- B) pushing our economy beyond normal capacity.
- C) an unemployment rate of zero.
- D) economic growth.

14) The downward sloping aggregate demand curve can be explained in part through:

- A) the negative relationship between the price level and investment spending.
- B) the income effect.
- C) the negative relationship between the price level and net imports.
- D) the positive relationship between the price level and net exports.

15) The aggregate demand curve:

- A) slopes upward.
- B) shows the relationship between the overall price level and the level of total demand.
- C) is flat.
- D) shows the price level on the horizontal axis and output on the vertical axis.

16) If Canadian prices increase relative to the rest of the world, we would expect:

- A) government spending to increase.
- B) net exports to be unaffected.
- C) net exports to increase.
- D) net exports to decrease.

17) Economist John Maynard Keynes is famous for saying, "In the long run, we are all dead." He is referring to:

- A) the length of time it can take the economy to recover to potential GDP without policy intervention.
- B) the fact that no policy can affect the long-run equilibrium.
- C) the permanent inflation that results in long-run adjustments.
- D) None of these is true.

18) If the government decreases the income tax rate, they assume it will affect which component of GDP?

- A) C
- B) G
- C) NX
- D) A change to the income tax rate will not affect any of these components.

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19) If the government enacts contractionary fiscal policy, it:

- A) must want to slow economic activity.
- B) expects aggregate demand to increase.
- C) could decrease taxes.
- D) increase its spending.

20) When an economy is in a recession, discretionary fiscal policy would call for _____, and the automatic stabilizers would _____.

- A) increasing tax revenues; increase tax rates
- B) lowering tax rates; lower tax revenues
- C) increasing tax rates; increase tax revenues
- D) None of these is true.

21) If the fiscal policy makers aim to increase aggregate demand, they will likely enact:

- A) contractionary monetary policy.
- B) contractionary fiscal policy.
- C) expansionary fiscal policy.
- D) expansionary monetary policy.

22) If the government wishes to increase GDP by \$1,200b, and the MPC is 0.75, it should:

- A) decrease its spending by \$300b.
- B) decrease its spending by \$900b.
- C) increase its spending by \$900b.
- D) increase its spending by \$300b.

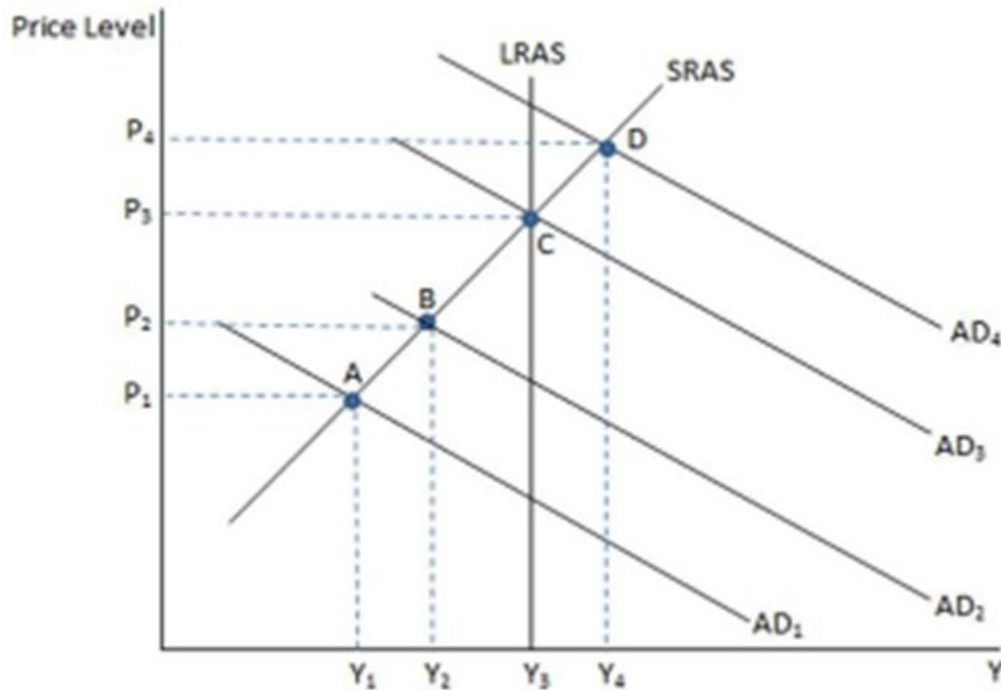
23) If the government increased its spending by \$100, and the GDP increased \$400 as a result, the MPC must be:

- A) 4.
- B) 0.70.
- C) 0.75.
- D) 2.

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24) According to the graph shown, if the government decides to increase taxes, it is most likely at equilibrium:



- A) A
- B) B
- C) D
- D) C

25) Fiscal policy can:

- A) have no real impacts on the economy.
- B) cause deflation.
- C) bring the economy to its long-run equilibrium faster than it can correct itself.
- D) All of these are true.

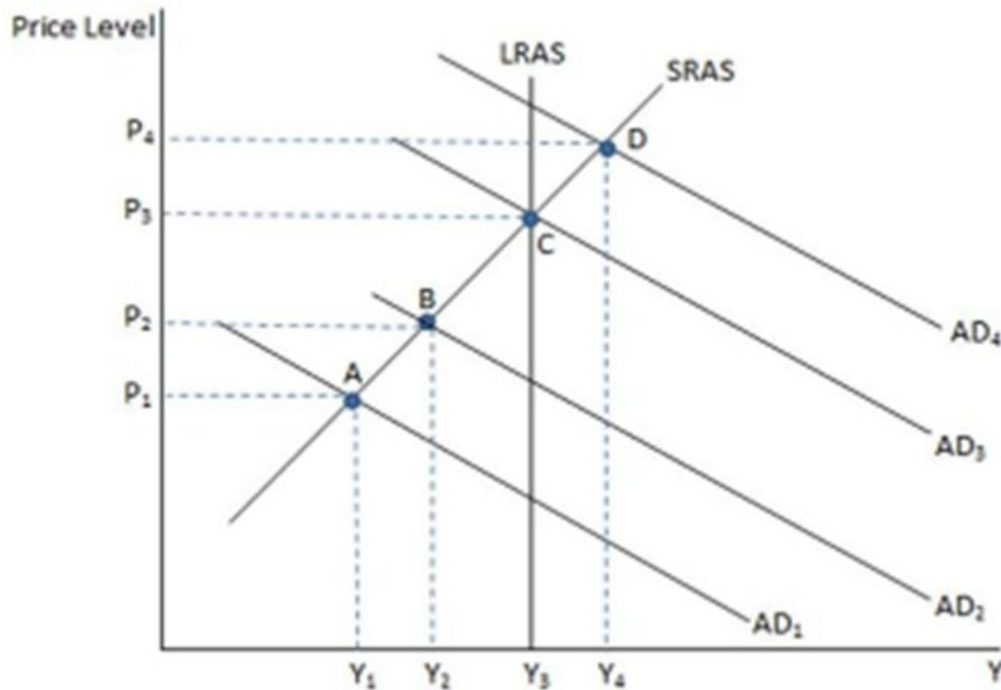
26) Fiscal policy most directly affects the economy by increasing or decreasing:

- A) long-run aggregate supply.
- B) the money supply.
- C) aggregate demand.
- D) short-run aggregate supply.

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27) If the economy in the graph shown is currently at point B, and the government increases its spending, the likely outcome will be that:



- A) The market will move out of equilibrium.
- B) the economy will decrease its level of output.
- C) the economy's unemployment rate will increase.
- D) the economy will experience inflation.

28) A dividend is:

- A) a financial asset that represents partial ownership of a company.
- B) an agreement in which a lender gives money to a borrower in exchange for a promise to repay the amount loaned plus an agreed-upon amount of interest.
- C) a payment made periodically to all shareholders of a company.
- D) a promise by the bond issuer to repay the loan, at a specified maturity date, and to pay periodic interest at a specific percentage rate.

29) In an economy without government or trade, it must be true that:

- A) consumption plus investment equal national savings.
- B) savings equals investment.
- C) consumption plus savings equal investment.
- D) consumption equals savings plus investment.

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30) Loans that are secured against an asset:

- A) are much shorter in length than unsecured loans.
- B) are much longer in length than unsecured loans.
- C) generally have lower interest rates.
- D) generally have higher interest rates.

31) One way to predict the future profitability of a company is through:

- A) using past prices.
- B) fundamental analysis.
- C) financial analysis
- D) All of these are ways to predict a company's worth.

32) Financial assets that represent the partial ownership of a firm and ability to share in its profits are called:

- A) equities.
- B) fiduciaries.
- C) credit risks.
- D) intermediaries.

33) The process of taking advantage of market inefficiencies to earn profits is called:

- A) a random walk.
- B) futures contracting.
- C) technical analysis.
- D) arbitrage.

34) The principal of a loan is:

- A) the set of rules and conditions borrowers agree to when taking out a loan.
- B) the original amount of the loan.
- C) the set of rules and conditions savers agree to when agreeing to letting someone borrow their money.
- D) None of these is true.

35) Economic growth is:

- A) a result of having more natural resources, land or capital.
- B) a decrease in our economy's potential output.
- C) represented by the long-run aggregate supply curve shifting to the left.
- D) All of these are true.

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36) The downward-sloping aggregate demand curve is partly due to:

- A) the positive relationship between the price level and government spending.
- B) the negative relationship between the price level and government spending.
- C) the negative relationship between the price level and net exports.
- D) the positive relationship between the price level and net exports.

37) In general, changes in the price level will change:

- A) the nominal value of cash balances.
- B) the nominal value of consumption goods and the real value of durable goods.
- C) the real value of consumption goods only.
- D) the real value of people's wealth and income.

38) Sticky wages cause:

- A) the long-run aggregate supply curve to slope upward.
- B) the long-run aggregate supply curve to slope downward.
- C) the short-run aggregate supply curve to slope downward.
- D) the short-run aggregate supply curve to slope upward.

39) If a natural disaster were to cause a negative long-run supply shock to the economy, once the economy adjusts, the new equilibrium will be:

- A) at a lower price level and higher level of output.
- B) at a higher price level and lower level of output.
- C) at a higher price level and higher level of output.
- D) at a lower price level and lower level of output.

40) The multiplier effect suggests that:

- A) saving \$1 increases GDP by more than \$1.
- B) spending \$1 decreases GDP by more than \$1.
- C) spending \$1 increases GDP by more than \$1.
- D) spending \$1 increases GDP by less than \$1.

41) Economist John Maynard Keynes once said, "In the long run, we are all dead." Keynes was likely:

- A) in favor of allowing the economy to always correct itself.
- B) in favor of using fiscal policy.
- C) against the use of fiscal policy.
- D) None of these statements is true.

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42) If the marginal propensity to consume was 0.9, it would mean that:

- A) consumers save \$9 out of every \$10 of additional disposable income.
- B) consumers spend \$9 out of every \$10 of additional disposable income.
- C) consumers spend \$1 out of every \$10 of additional disposable income.
- D) people should save more.

43) If lenders think that a particular borrower might default, they will demand:

- A) a lower interest rate to make it worth taking that risk.
- B) a higher interest rate to make it worth taking that risk.
- C) a higher interest rate to decrease the amount of risk incurred.
- D) a lower interest rate to decrease the amount of risk incurred.

44) A loan is:

- A) a payment made periodically to all shareholders of a company.
- B) a financial asset that represents partial ownership of a company.
- C) an agreement in which a lender gives money to a borrower in exchange for a promise to repay the amount loaned plus an agreed-upon amount of interest.
- D) a promise by the bond issuer to repay the loan, at a specified maturity date, and to pay periodic interest at a specific percentage rate.

45) Aggregate supply is the:

- A) market value of the total quantity of goods and services supplied in the economy.
- B) total quantity of the production of all the households in the economy.
- C) total quantity of goods and services demanded in the economy.
- D) market value of the total quantity of goods and services demanded in the economy.

46) Falling output, in the short run, could be due to:

- A) an increase in short-run aggregate supply.
- B) an increase in long-run aggregate supply.
- C) an increase in aggregate demand.
- D) a reduction in aggregate demand.

47) When the government enacts fiscal policy, it:

- A) only effect unemployment rates.
- B) will always be able to improve matters.
- C) can bring the economy to its long-run equilibrium more quickly than it can correct itself.
- D) will always make things worse.

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48) Savings and investment are equal:

- A) because banks regulate their flow.
- B) at the equilibrium in the market for loanable funds.
- C) at an interest rate set by the Bank of Canada.
- D) All of these are true.

49) When the Canadian price level decreases relative to the rest of the world:

- A) exports will increase and net exports will decrease.
- B) exports and net exports will increase.
- C) imports and net exports will increase.
- D) exports will decrease and net exports will increase.

50) For any MPC, the taxation multiplier is:

- A) smaller in absolute value than the government spending multiplier.
- B) larger in absolute value than the government spending multiplier.
- C) the inverse of the government spending multiplier.
- D) the same as the government spending multiplier.

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Answers

- 1) A
- 2) C
- 3) D
- 4) C
- 5) A
- 6) C
- 7) A
- 8) B
- 9) C
- 10) B
- 11) D
- 12) C
- 13) D
- 14) A
- 15) B
- 16) D
- 17) A
- 18) A
- 19) A
- 20) B
- 21) C
- 22) D
- 23) C
- 24) C
- 25) C
- 26) C
- 27) D
- 28) C
- 29) B
- 30) C
- 31) B
- 32) A
- 33) D
- 34) B
- 35) A
- 36) C
- 37) D
- 38) D
- 39) B
- 40) C
- 41) B
- 42) B
- 43) B
- 44) C

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45) A

46) D

47) C

48) B

49) B

50) A