

Economics 1022A001 MT1 practice

- 1) In a world characterized by scarcity
  - A) all goods are free.
  - B) opportunity cost is zero.
  - C) we are not limited by time.
  - D) individuals need not work to obtain goods.
  - E) people must make choices among alternatives.
  
- 2) An incentive
  - A) could be a reward but could not be a penalty.
  - B) could be a penalty but could not be a reward.
  - C) could be either a reward or a penalty.
  - D) is the opposite of a tradeoff.
  - E) occurs in the macroeconomy but not in the microeconomy.
  
- 3) "The rich should face higher income tax rates than the poor." This is an example of
  - A) a normative statement.
  - B) a positive statement.
  - C) a negative statement.
  - D) economic reasoning.
  - E) neither a normative nor a positive statement.
  
- 4) If you take an additional class this term, you can graduate earlier. This is an example of
  - A) opportunity cost.
  - B) total cost.
  - C) the pursuit of social interest.
  - D) marginal benefit.
  - E) social cost.
  
- 5) Complete the following sentence. Marginal cost is
  - A) the total cost of an activity.
  - B) the total cost of a decrease in an activity.
  - C) the opportunity cost of an increase in an activity.
  - D) the opportunity cost of a decrease in an activity.
  - E) equal to marginal benefit.
  
- 6) A market where no single buyer or seller can influence the price is
  - A) a buyer's market.
  - B) a seller's market.
  - C) a competitive market.
  - D) an output market.
  - E) an input market.

- 7) The demand curve slopes downward to the right because
- A) an increase in income leads to increased consumption.
  - B) of the law of supply.
  - C) of the law of demand.
  - D) of comparative advantage.
  - E) as income rises, the quantity demanded increases.
- 8) An increase in income
- A) increases the demand for turnips if a turnip is an inferior good.
  - B) increases the demand for turnips if a turnip is a normal good.
  - C) increases the supply of turnips.
  - D) decreases the demand for turnips if turnips have a very low price.
  - E) decreases the supply of turnips.
- 9) An increase in supply is shown by
- A) a movement down along the supply curve.
  - B) a movement up along the supply curve.
  - C) a rightward shift of the supply curve.
  - D) a leftward shift of the supply curve.
  - E) an initial movement up and then down along the same supply curve.
- 10) Good A is a normal good if
- A) a rise in the price of a complement causes the demand for A to decrease.
  - B) income and the demand for A are negatively related.
  - C) a rise in the price of a substitute causes the demand for A to increase.
  - D) the demand for A increases when income rises.
  - E) good A satisfies the law of demand.

**Table 3.4.1**

Price (dollars per unit)	Quantity Demanded (units)	Quantity Supplied (units)
1	1,100	50
2	800	200
3	600	420
4	500	500
5	420	580
6	350	640
7	320	680
8	300	700

- 11) Refer to Table 3.4.1. At a price of \$3 a unit
- A) the market is in equilibrium.
  - B) there is a 180-unit surplus.
  - C) there is a 180-unit shortage.
  - D) there is a tendency for the price to rise.
  - E) C and D

12) In Table 3.4.1, the equilibrium price is

- A) \$7 a unit.
- B) \$5 a unit.
- C) \$4 a unit.
- D) \$3 a unit.
- E) \$1 a unit.

13) In Table 3.4.1, the equilibrium quantity is

- A) 200 units.
- B) 320 units.
- C) 420 units.
- D) 500 units.
- E) none of the above; there is no equilibrium.

14) Refer to Table 3.4.1. The equilibrium quantity is 420 units if

- A) the price is fixed at \$3 a unit.
- B) the price is fixed at \$4 a unit.
- C) the price is fixed at \$5 a unit.
- D) Both A and C are correct.
- E) none of the above

15) Refer to Table 3.4.1. A shortage occurs if

- A) the price is \$7 a unit.
- B) the price is \$4 a unit.
- C) the price is \$5 a unit.
- D) the price is below \$4 a unit.
- E) the price is \$6 a unit.

16) Refer to Table 3.4.1. A surplus occurs if

- A) the price is \$2 a unit.
- B) the price is \$3 a unit.
- C) the price is above \$4 a unit.
- D) the price is \$1 a unit.
- E) the price is \$4 a unit.

17) Refer to Table 3.4.1. If the price is \$7, then the surplus is

- A) 360 units.
- B) 400 units.
- C) 160 units.
- D) zero units.
- E) 290 units.

18) Refer to Table 3.4.1. If the price is \$3, then the shortage is

- A) zero units.
- B) 1,050 units.
- C) 180 units.
- D) 600 units.
- E) 160 units.

19) Suppose we observe a rise in the price of good *A* and an increase in the quantity of good *A* bought and sold. Which one of the following is a likely explanation?

- A) The law of demand is violated.
- B) The demand for *A* decreased.
- C) The demand for *A* increased.
- D) The supply of *A* increased.
- E) The supply of *A* decreased.

20) If *A* and *B* are substitutes and the price of *A* rises, we will observe

- A) an increase in the equilibrium price and the equilibrium quantity of *B*.
- B) a decrease in the equilibrium price and the equilibrium quantity of *B*.
- C) an increase in the equilibrium price but a decrease in the equilibrium quantity of *B*.
- D) a decrease in equilibrium price but an increase in the equilibrium quantity of *B*.
- E) a decrease in the demand for *A*.

21) If *A* and *B* are complements in production and the price of *A* falls, the supply of *B*

- A) increases, and the price of *B* rises.
- B) increases, and the price of *B* falls.
- C) decreases, and the price of *B* falls.
- D) decreases, and the price of *B* rises.
- E) does not change.

22) Which of the following events leads to a rise in the price of oranges?

- A) a rise in the price of apples if apples and oranges are substitutes
- B) a scientific discovery that oranges cause hair loss
- C) a decrease in income if oranges are a normal good
- D) good growing weather in Florida
- E) a technological improvement in the production of oranges

23) In calculating GDP, economists use the value of final goods and services because

- A) by using final goods and services, they avoid double counting.
- B) final goods can be exported to other countries.
- C) intermediate goods are imported from other countries.
- D) GDP is underestimated if intermediate goods are used instead.
- E) final goods and services do not depreciate.

- 24) Complete the following sentence. Net exports equals
- A) exports divided by imports.
  - B) exports plus imports.
  - C) exports minus imports.
  - D) imports minus exports.
  - E) foreign borrowing by residents of Canada minus domestic borrowing by nonresidents of Canada.
- 25) Which one of the following is true?
- A)  $Y = C + I + G + M - X$
  - B)  $I + G + X = Y + I + M$
  - C)  $Y = C + S + I$
  - D)  $Y + M = C + I + G$
  - E)  $Y = C + I + G + X - M$
- 26) Suppose the economy's capital increases over the year. It must be true that
- A) net investment was greater than gross investment.
  - B) net investment was positive.
  - C) depreciation was greater than net investment.
  - D) depreciation was greater than gross investment.
  - E) depreciation is less than zero.
- 27) Which of the following would *not* be included in GDP for 2014?
- A) a car produced in 2014 and held in inventory until 2015
  - B) a car produced in 2014 and sold in 2015
  - C) the value of all cars produced in 2015
  - D) a car produced in January of 2014 and sold in November of 2015
  - E) a car produced in 2013 and sold in 2014

Use the table below to answer the following questions.

**Table 20.2.2**

Government expenditures on goods and services	\$500
Wages, salaries, and supplementary labour income	2,000
Depreciation	400
Investment	400
Consumption expenditure	2,200
Net exports	-50
Indirect taxes	150
Statistical discrepancy	0

- 28) Refer to Table 20.2.2. Gross domestic product equals
- A) \$3,050.
  - B) \$3,150.
  - C) \$3,400.
  - D) \$5,600.
  - E) \$5,050.

Use the table below to answer the following questions.

**Table 20.2.4**

Other factor incomes	\$570
Indirect taxes	230
Depreciation	250
Wages, salaries and supplementary labour income	1,350
Consumption expenditure	1,400
Government expenditure on goods and services	500
Government transfer payments	50
Net exports	40
Subsidies	0
Statistical Discrepancy	0

- 29) Refer to Table 20.2.4. Gross domestic product is equal to
- A) \$2,400.
  - B) \$1,920.
  - C) \$2,150.
  - D) \$1,940.
  - E) \$2,350.

Use the table below to answer the following questions.

**Table 20.2.5**

Data from Southton

Item	Price (dollars)		Quantity (number of items)	
	Base Year	Current Year	Base Year	Current Year
Rubber Ducks	1.00	1.25	100	100
Beach Towels	9.00	6.00	12	14

- 30) Refer to Table 20.2.5. From the data in the table, compute Southton's real GDP in the base year.
- A) \$208
  - B) \$197
  - C) \$209
  - D) \$226
  - E) It cannot be calculated given the data.

Use the table below to answer the following questions.

**Table 20.4.1**

<b>Item</b>	<b>2013 Quantity</b>	<b>2013 Price</b>	<b>2014 Quantity</b>	<b>2014 Price</b>
CD players	10	\$100	15	\$110
bananas	50 bunches	\$2	100 bunches	\$3

- 31) Refer to Table 20.4.1. Chained-dollar real GDP in 2014 is
- A) \$1665.
  - B) \$1950.5.
  - C) \$1707.75.
  - D) \$1250.
  - E) \$1100.
- 32) Which one of the following people would be counted as unemployed in Canada?
- A) Veena is not working, but she is looking for a full-time job.
  - B) Kathy has stopped looking for work since she was unable to find a suitable job during a one-month search.
  - C) Sharon is a college student with a job.
  - D) Christos was laid off from his job a month ago and has not been looking for a new job, as he is waiting for a severance package from his former employer.
  - E) Benoit was laid off when his firm closed down two months ago and has not been looking for work, as he is going back to school.
- 33) The labour force is the total number of
- A) people employed.
  - B) people aged 15 years and over.
  - C) people in the working-age population who are employed.
  - D) people in the working-age population who are either employed or unemployed.
  - E) full-time workers.
- 34) In a country with a working-age population of 22 million, 16 million are employed, 2 million are unemployed, and 1 million of the employed are working part-time, half of whom wish to work full-time. The unemployment rate is
- A) 10 percent.
  - B) 10.3 percent.
  - C) 11.1 percent.
  - D) 15.4 percent.
  - E) 2 percent.

35) In a country with a working-age population of 22 million, 16 million are employed, 2 million are unemployed, and 1 million of the employed are working part-time, half of whom wish to work full-time. If 500,000 of those unemployed are cyclically unemployed, what is the natural unemployment rate?

- A) 11.1 percent
- B) 5.6 percent
- C) 8.3 percent
- D) 9.4 percent
- E) 1.5 percent

36) Unemployment caused by permanently decreased demand for horse-drawn carriages is an example of

- A) cyclical unemployment.
- B) old-fashioned unemployment.
- C) frictional unemployment.
- D) structural unemployment.
- E) discouraged unemployment.

37) The natural unemployment rate is

- A) equal to 0 percent.
- B) the same as the cyclical unemployment rate.
- C) the rate at which cyclical unemployment is equal to 6 percent.
- D) the rate at which cyclical unemployment is equal to 0 percent.
- E) the rate at which all unemployment is structural.

*Use the table below to answer the following questions.*

**Table 21.3.1**

Suppose a simple economy produces three goods only.  
The price and output data for some selected years are shown below.

	Price (dollars)	Price (dollars)	Quantity (number)	Quantity (number)
	2002	2014	2002	2014
Pop	0.75	1.10	100	120
Crackers	1.25	2.10	300	280
Cucumbers	2.00	3.00	200	190

38) Refer to Table 21.3.1. The reference base period is 2014. The CPI in 2002 is

- A) 100.
- B) 157.
- C) 129.
- D) 63.
- E) 152.

39) The commodity substitution bias is that

- A) consumers substitute high-quality goods for low-quality goods.
- B) government spending is a good substitute for investment expenditures.
- C) national saving and foreign borrowing are interchangeable.
- D) consumers decrease the quantity they buy of goods whose relative prices rise and increase the quantity of goods whose relative price falls.
- E) consumers substitute more expensive goods for less expensive goods when technology advances.

40) In 2012, Northland had real GDP of \$4.21 billion and a population of 2.98 million. In 2013, real GDP was \$4.59 billion and population was 2.97 million. What was Northland's growth rate of real GDP in 2013?

- A) 0.38 percent
- B) 3.8 percent
- C) 8.3 percent
- D) 9.0 percent
- E) 11.1 percent

41) Using the Rule of 70, if the country of Flowerdom's current growth rate of real GDP per person is 7 percent a year, how long will it take the country's real GDP per person to double?

- A) 1 year
- B) 2 years
- C) 10 years
- D) 49 years
- E) 7 years

42) The aggregate production function is graphed as

- A) a downward-sloping curve.
- B) an upward-sloping straight line.
- C) an upward-sloping line that becomes flatter as the quantity of labour increases.
- D) an upward-sloping line that becomes steeper as the quantity of labour increases.
- E) a production possibilities frontier.

43) An increase in labour hours will lead to

- A) an upward shift of the aggregate production function.
- B) a movement along the aggregate production function.
- C) both a movement along and an upward shift of the aggregate production function.
- D) neither a movement along nor a shift of the aggregate production function.
- E) a downward shift of the aggregate production function.

44) In the labour market, an increase in labour productivity \_\_\_\_\_ the real wage rate and \_\_\_\_\_ the level of employment.

- A) raises; increases
- B) raises; decreases
- C) lowers; increases
- D) lowers; decreases
- E) raises; does not change

45) When labour productivity increases, the demand for labour curve \_\_\_\_\_ and the supply of labour curve \_\_\_\_\_.

- A) shifts rightward; shifts rightward
- B) shifts rightward; does not shift
- C) shifts leftward; shifts rightward
- D) shifts leftward; does not shift
- E) shifts rightward; shifts leftward

46) If capital per worker increases, labour productivity

- A) decreases for a given level of technology.
- B) increases because the level of technology increases.
- C) increases for a given level of technology.
- D) decreases because the level of technology decreases.
- E) does not change unless technology advances at the same time.

47) An increase in education and training

- A) increases labour productivity.
- B) increases aggregate hours.
- C) decreases real GDP growth.
- D) increases the employment-to-population ratio.
- E) is an increase in physical capital.

48) Which one of the following quotations could be attributed to a supporter of the classical growth theory?

- A) "Growth will last as long as technology keeps advancing."
- B) "Prosperity will last as long as technology keeps advancing."
- C) "Growth will last only until the increase in population brings productivity down to the subsistence level."
- D) "Prosperity will last as long as there is knowledge accumulation."
- E) "Growth will last as long as knowledge accumulation continues."

49) The key difference between the neoclassical growth theory and the classical growth theory is that

- A) capital is not subject to diminishing returns under classical growth theory.
- B) capital is subject to diminishing returns under classical growth theory.
- C) increases in population drive workers' incomes back down to the subsistence level in classical growth theory.
- D) growth in the neoclassical growth theory ends with a population explosion.
- E) in classical growth theory, the pace of technological change influences the economic growth rate but economic growth does not influence the pace of technological change.

50) The increase in the value of capital is

- A) gross investment.
- B) depreciation.
- C) net investment.
- D) private sector spending.
- E) wealth.

51) Elena owns a Canada Savings Bond with a price of \$5,000, which pays \$500 per year. The price of the bond rises in the bond market to \$7,500. What is the new interest rate on the bond?

- A) 5 percent
- B) 6.67 percent
- C) 10 percent
- D) 20 percent
- E) 500 percent

52) Approximately, the real interest rate \_\_\_\_\_ the inflation rate \_\_\_\_\_ the nominal interest rate.

- A) plus; equals
- B) equals; plus
- C) equals; minus
- D) minus; equals
- E) times; divided by 100 equals

53) The demand for loanable funds is the relationship between the quantity of loanable funds demanded and the \_\_\_\_\_, other things remaining the same.

- A) real interest rate
- B) nominal interest rate
- C) inflation rate
- D) price level
- E) quantity of loanable funds supplied

54) During a recession, firms decrease their profit expectations. As a result, there is a \_\_\_\_\_ shift of the \_\_\_\_\_ loanable funds curve.

- A) rightward; supply of
- B) leftward; demand for
- C) rightward; demand for
- D) rightward, supply of
- E) leftward; demand for loanable funds curve and supply of

55) If households' disposable income decreases, then

- A) households' saving will decrease.
- B) households' saving will increase.
- C) the supply of loanable funds decreases.
- D) a movement occurs down along the supply of loanable funds curve.
- E) Both A and C are correct.

56) Technological progress that increases expected profit shifts the demand for loanable funds curve

- A) leftward and decreases the real interest rate.
- B) rightward and increases the real interest rate.
- C) rightward and decreases the real interest rate.
- D) leftward and increases the real interest rate.
- E) rightward and the supply of loanable funds curve leftward.

57) The tendency for a government budget deficit to decrease investment is called the

- A) government dissaving effect.
- B) crowding-out effect.
- C) Ricardo-Barro effect.
- D) capital investment effect.
- E) deficit effect.

58) The tendency for private saving to increase in response to growing government deficits is known as the

- A) crowding out effect.
- B) money illusion effect.
- C) Keynes effect.
- D) Ricardo-Barro effect.
- E) Mulroney-Harper effect.

59) If the government begins to run a larger budget deficit, the demand for loanable funds \_\_\_\_\_ and the real interest rate \_\_\_\_\_.

- A) decreases; falls
- B) decreases; rises
- C) increases; rises
- D) increases; falls
- E) increases; rises or falls depending on the change in the supply of loanable funds

60) The Monetary Base consists of the sum of

- A) Bank of Canada notes held within the Bank of Canada, bank deposits at the Bank of Canada, and coins held by banks.
- B) Bank of Canada notes held outside the Bank of Canada, the desired reserves of chartered banks, and coins held by banks.
- C) Bank of Canada notes held outside the Bank of Canada, bank deposits at the Bank of Canada, and coins held by banks and the public.
- D) Bank of Canada notes held within the Bank of Canada, bank deposits at the Bank of Canada, and coins held by banks and the public.
- E) Bank of Canada notes held outside the Bank of Canada, bank deposits at the Bank of Canada, and notes and coins held by banks.

61) Which of the following best fits the definition of money?

- A) gold
- B) any commodity or token that is generally acceptable as a means of payment
- C) an obligation between the parties to a transaction
- D) any unit of account
- E) any medium of exchange

62) Which one of the following items is *not* included in the M1 definition of money?

- A) currency outside banks.
- B) personal chequable deposits
- C) non-personal chequable deposits
- D) fixed term deposits
- E) Neither B nor D are part of M1.

63) Pooling risk

- A) refers to a default contract made by a bank to other banks.
- B) refers to spreading the risk of loan default among all the depositors within the depository institution.
- C) is now illegal under the Nuisance Act of 2007.
- D) occurs when one person lends to an entire group or pool of borrowers.
- E) refers to the lower cost of obtaining funds from a depository institution.

64) The Bank of Canada is the lender of last resort. This means banks may borrow money from the Bank of Canada

- A) whenever they are short of reserves.
- B) overnight.
- C) if they have sufficient securities to support the loan.
- D) if the banking system as a whole is short of reserves.
- E) to finance a sudden and dramatic increase in overseas reserves.

65) The money creation process begins when

- A) desired reserves increase because of an increase in deposits.
- B) the quantity of money increases.
- C) banks have excess reserves.
- D) bank deposits increase.
- E) banks lend reserves.

66) The money multiplier can also be calculated as \_\_\_\_\_, where  $a$  is the currency drain ratio and  $b$  is the desired reserve ratio.

- A)  $(a + b) \div (1 + b)$
- B)  $a \div (a + b)$
- C)  $(1 + a) \div (a + b)$
- D)  $(a + b) \div (1 + a)$
- E)  $(1 + b) \div (a + b)$