

24  
125  
8  
-----  
2000

Part I - 45 points

24  
125  
8  
-----  
900

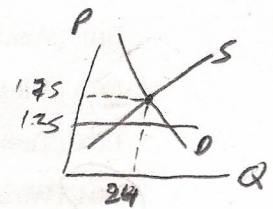
Answer both of the following questions on this question paper by giving your answers in the space provided.

33 points

1. One of the products manufactured by Canadian steel producers is framing nails, which are sold in boxes of 100 nails. The table below provides information relevant to the domestic supply and demand schedules for these boxes of nails. The international price of a box of framing nails is \$1.25. Use this information to answer the following questions.

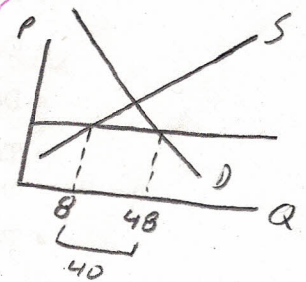
BOX = \$ 1.25

Price (dollars per box)	Quantity demanded (millions of boxes per year)	Quantity supplied (millions of boxes per year)
1.00	60	0
1.25	48	8
1.50	36	16
1.75	24	24
2.00	12	32
2.25	0	40



- (a) Suppose that Canada is closed to steel products, including nails.
- What domestic price and quantity prevail for boxes of nails?  
Price = \$1.75 / Quantity = 24
  - What is the total revenue of producers of framing nails?  
TR = 1.75 x 24 = 42
  - Does Canada have a comparative advantage in nails? yes  no

- (b) If Canada is open to nails, how many boxes are
- produced domestically?  
8 BOXES
  - imported?  
40 BOXES
  - exported?  
0 BOXES
  - purchased domestically?  
48 BOXES
  - What is the revenue of Canadian nail producers?  
1.25 x 8 = 10
  - What is the revenue of foreign nail producers from the Canadian market?  
1.25 x 40 = 50



12  
4  
-----  
48

31  
33

(c) Suppose that a tariff of \$0.25 per box is imposed on imported nails. What is

- ✓ i. the price of boxes of nails in Canada?  
\$1.50
- ✓ ii. the quantity produced domestically?  
16 BOXES
- ✓ iii. the quantity imported?  
20 BOXES
- ✓ iv. the quantity exported?  
0 BOXES
- ✓ v. the quantity purchased domestically?  
36 BOXES
- ✓ vi. the revenue from the tariff?  
 $0.25 \times 20 = 5$
- 0 vii. the revenue of Canadian nail producers (excluding the tariff)?  
 $1.50 \times 16 = 24$
- ✓ viii. the revenue of foreign nail producers from the Canadian market?  
 $1.25 \times 20 = 25$

1.5  
16  
  
1.25  
20  
-----  
000  
250  
-----  
2.700

12 points

2. Consider a closed economy that produces a single consumption good (hot dogs), a single investment good (bulldozers), and a single government service (policing). The prices and quantities of each are given below, for two years. Use this information to answer the following questions.

Expenditure category	Year 1		Year 2	
	Quantity	Price	Quantity	Price
Consumption	20	5	8	1
Investment	6	10	4	4
Government	2	20	12	8

- (a) What is nominal GDP in Year 1?  
200
- (b) What is nominal GDP in Year 2?  
120
- (c) What is GDP in Year 2, valued at year 1 prices?  
320
- (d) What is GDP in Year 1, valued at year 2 prices?  
60
- (e) (Points awarded only if answered using correct answers to the previous questions.)  
What is the percentage change in real GDP from Year 1 to Year 2 if the base year is chosen to be
  - i. Year 1?
  - ii. Year 2?

12  
18  
-----  
90  
  
3  
15  
-----  
16  
190  
55  
-----  
640  
  
8  
-----  
12

## Part II - 20 points

For each of the following multiple choice questions, circle the letter of the one best answer.

- 17  
20
- To think about the macroeconomy coherently, we need to organize topics according to broad categories and distinctions. Which of the following was **not** among those we suggested as such categories/distinctions?
    - the national economy versus the international economy
    - CPI versus GDP deflator
    - private versus public entities
    - theory versus the real world
  - A circular flow diagram includes
    - revenues, expenditures, and incomes
    - economic agents
    - markets
    - all of the above
  - In the circular flow diagrams of the economy that we have developed, the "flows" include
    - goods and services
    - revenues
    - incomes
    - all of the above
  - A nation's production possibilities frontier is
    - bowed inward
    - linear (i.e. a straight line)
    - bowed outward
    - none of the above
  - The production possibilities frontier (PPF) is as in the previous question because
    - there is unemployment
    - inevitably, some resources remain unused
    - all resources are used, but some are used inefficiently
    - resources are not all equally productive in all activities
  - The concept of opportunity cost is relevant to
    - the tradeoff between goods during a given time period
    - economic growth: the tradeoff between production today versus production in the future
    - neither (a) nor (b)
    - both (a) and (b)

7. Allocative efficiency is achieved when
- (a) the marginal benefit equals marginal cost
  - (b) we are inside the PPF
  - (c) we are on the PPF
  - (d) marginal benefit is maximized
8. In the example of Liz and Joe trading salads and smoothies, the rate at which they trade salads for smoothies is best described as the outcome of
- (a) supply and demand
  - (b) competition
  - (c) bargaining
  - (d) price taking behaviour by Liz and Joe
9. The gains from trade arise because
- (a) different people have different opportunity costs
  - (b) different people have different absolute advantages in the production of goods
  - (c) both (a) and (b)
  - (d) neither (a) nor (b)
10. The distinction between ex ante versus ex post is the distinction between
- (a) before-the-fact versus after-the-fact
  - (b) behaviour versus definitional accounting identities
  - (c) both (a) and (b)
  - (d) neither (a) nor (b)
11. When we say that demand and supply curves represent the ex ante behaviour of market participants, we mean that the curves describe their
- (a) plans
  - (b) intentions
  - (c) desires
  - (d) all of the above
12. In a domestic market that permits exports,
- (a) both producers and consumers win
  - (b) both producers and consumers lose
  - (c) producers lose, consumers win
  - (d) producers win, consumers lose
13. In a domestic market that permits imports,
- (a) both producers and consumers win
  - (b) both producers and consumers lose
  - (c) producers lose, consumers win
  - (d) producers win, consumers lose

14. Consumer surplus is
- (a) the excess of income over expenditure
  - (b) the excess of assets over debt
  - (c) the excess of consumption over saving
  - (d) the excess of willingness-to-pay over market price
15. The introduction of an import quota makes the following worse off:
- (a) government
  - (b) domestic producers
  - (c) domestic consumers
  - (d) all of the above
16. The introduction of a tariff on imports makes the following worse off:
- (a) government
  - (b) domestic producers
  - (c) domestic consumers
  - (d) all of the above
17. A natural first step in formulating our ideas about the macroeconomy is to develop a framework of
- (a) real versus nominal values
  - (b) financial versus nonfinancial variables
  - (c) ex post definitional accounting identities
  - (d) ex ante equilibrium conditions and behavioural relationships
18. The income and expenditure approaches are ways of calculating an economy's total
- (a) assets
  - (b) capital
  - (c) production
  - (d) debt
19. The arbitrariness in choosing a base year to compute real GDP can be resolved using
- (a) chained-dollar GDP
  - (b) the expenditure approach
  - (c) the income approach
  - (d) either (b) or (c), they are equivalent
20. Which of the following is **not** equivalent to the others:
- (a) aggregate income
  - (b) aggregate consumption
  - (c) aggregate expenditure
  - (d) gross domestic product