

Practice Test #2

This practice test is meant as a study tool for students registered in Econ 1BB3 during the Fall 2018 term. Please **do not copy or distribute** to students not registered in this course in this term.

**ECONOMICS 1BB3
Introductory Macroeconomics
Sections C01, C02, C03**

**Term Test #2
March 10, 2018
9:00am**

This examination paper includes 12 pages including the title page and 40 questions. You are responsible for ensuring that your copy of the paper is complete. Please bring any discrepancy to the attention of your invigilator. **YOU HAVE 75 MINUTES TO COMPLETE THE TEST.**

Special Instructions:

Only the McMaster Standard (Casio - FX991 MS or FX991 MS Plus) Calculator may be used. This test paper must be returned along with the scan sheet. Write your name and student number on the test paper and the scan sheet. If you are wearing a baseball cap, please turn it so the peak is in the back. Please turn off all cell phones. There should be no electronic devices at your seat other than a calculator. All books and bags must be left at the front of the room. You will need your student ID card at your desk, along with your calculator, a pencil, and a pen. Use an HB pencil to fill in the scan sheet. You cannot fill in the version number of your test paper on the scan sheet.

OMR EXAMINATION - STUDENT INSTRUCTIONS

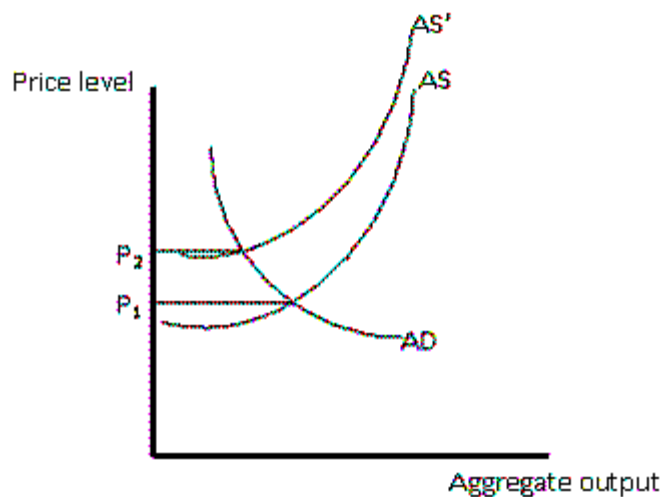
NOTE: IT IS YOUR RESPONSIBILITY TO ENSURE THAT THE ANSWER SHEET IS PROPERLY COMPLETED: YOUR EXAMINATION RESULT DEPENDS UPON PROPER ATTENTION TO THESE INSTRUCTIONS.

The scanner, which reads the sheets, senses the shaded areas by their non-reflection of light. A heavy mark must be made, completely filling the circular bubble, with a HB pencil. Marks made with a pen or felt-tip marker will **NOT** be sensed. Erasures must be through or the scanner may still sense a mark. Do **NOT** use correction fluid on the sheets. Do **NOT** put any unnecessary marks or writing on the sheets.

1. Print your name, student number, course name, section number and the date in the space provided at the top of Side 1 (red side) of the form.
2. Mark your student number in the space provided on the sheet on Side 1 and fill in the corresponding bubbles underneath.
3. Mark only ONE choice from the alternatives (1,2,3,4,5, or A,B,C,D,E) provided for each question. If there is a True/False question, enter response of 1 (or A) as True, and 2 (or B) as False. The question number is to the left of the bubbles. Make sure that the number of the question on the scan sheet is the same as the question number on the test paper.
4. Pay particular attention to the Marking Directions on the form.
5. Begin answering questions using the first set of bubbles, marked "1".

Indicate the answer choice that best completes the statement or answers the question.

1. Suppose business managers become more optimistic about future sales and profits. How will this affect the autonomous investment function?
 - a. It will create a rightward movement along the autonomous investment function.
 - b. It will create a leftward movement along the autonomous investment function.
 - c. It will create an upward shift of the autonomous investment function.
 - d. It will create a downward shift of the autonomous investment function.
2. Ralph puts money in the bank and earns a 5 percent nominal interest rate. What happens if the inflation rate is 3 percent?
 - a. Ralph will have 5 percent more money, which will purchase 2 percent more goods.
 - b. Ralph will have 3 percent more money, which will purchase 2 percent more goods.
 - c. Ralph will have 3 percent more money, which will purchase 8 percent more goods.
 - d. Ralph will have 5 percent more money, which will purchase 8 percent more goods.
3. Suppose that at a particular level of real GDP, the unintended change in inventories is zero. How will this affect the level of real GDP?
 - a. The level of real GDP will be less than the equilibrium level of real GDP demanded.
 - b. The level of real GDP will be greater than the equilibrium level of real GDP demanded.
 - c. The level of real GDP will be the equilibrium level of real GDP demanded.
 - d. The level of real GDP will first be greater, and then less, than the equilibrium level of real GDP.



4. Refer to the graph in the exhibit. What type of inflation is illustrated?
 - a. cost-pull inflation
 - b. cost-push inflation
 - c. demand-push inflation
 - d. demand-pull inflation

5. Which of the following is NOT included in the “*rules of the game*”?
- a market process that generates a fair price for all
 - property rights
 - the laws, customs, conventions, and other institutional elements associated with trade
 - a stable political environment
6. A foreign governmental statistics agency recently reported that there were 48.6 million people over age 25 who had at least a bachelor’s degree. Of this number, 38.0 million were in the labour force and 36.9 million were employed. What was the unemployment rate in this group?
- about 24.1 percent
 - about 21.8 percent
 - about 2.9 percent
 - about 2.3 percent
7. Which of the following is the indicator for standard of living?
- nominal GDP
 - real GDP
 - capital per worker
 - real GDP per capita
8. Which of the following describes the short-run aggregate supply curve?
- It shows the relationship between the price of labour and the aggregate quantity of labour that workers supply, other things constant.
 - It shows the relationship between the price level and the quantity of aggregate output that firms supply, other things constant.
 - It shows the relationship between the interest rate and the quantity of capital goods that firms supply, other things constant.
 - It shows an inverse relationship between the price level and real GDP.
9. Suppose that the real wage remained unchanged between year 1 and 2 but the nominal wage was \$20 in year 1 and \$18 in year 2. How was the price level affected?
- It rose by 20 percent.
 - It rose by 25 percent.
 - It fell by 10 percent.
 - It fell by 20 percent.

10. Suppose the actual price level exceeds the expected price level reflected in long-term contracts. How will firms respond?
- Firms will find production more profitable than they had expected, and will increase the quantity of output supplied.
 - Firms will find production less profitable than they had expected, and will decrease the quantity of output supplied.
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Schedule for Real GDP, Net Taxes and Government Purchases (Trillions of Dollars)

Real GDP (Y)	Net taxes (NT)	Disposable income (Y - NT)	Consumption (C)	Saving (S)	Planned investment (I)	Net exports (NX)	Government purchases (G)	Planned aggregate expenditure (C + I + NX + G)
3.0	0.9	2.1	2.0	0.1	0.5	-0.2	0.9	3.2
3.6	0.9	2.7	2.4	0.3	0.5	-0.2	0.9	3.5
4.2	0.9	3.3	2.8	0.5	0.5	-0.2	0.9	4.0
4.8	0.9	3.9	3.2	0.7	0.5	-0.2	0.9	4.4
5.4	0.9	4.5	3.6	0.9	0.5	-0.2	0.9	4.8

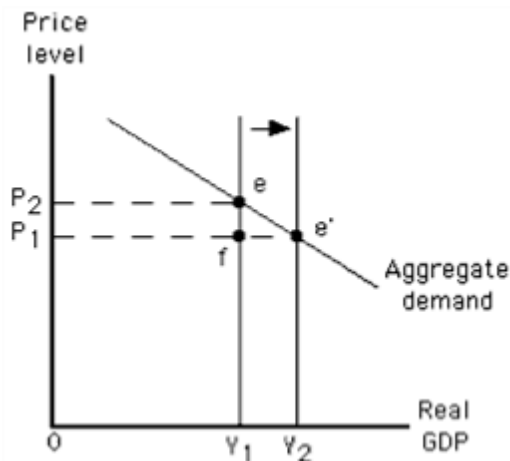
11. Refer to the table in the exhibit. What is the marginal propensity to consume?
- 5/6
 - 4/5
 - 3/4
 - 2/3
12. What does it mean when a worker experiences a decrease in real wages?
- The worker's purchasing power declines.
 - The worker's after-tax nominal wage declines.
 - The worker's nominal wage declines.
 - The worker's nominal wage rises.
13. How does research and development contribute most to productivity growth?
- through its effect on the quantity of labour available
 - through its effect on the quantity of capital goods available
 - through its effect on the quality of labour available
 - through its effect on the quality of capital goods available
14. A professional gambler moves from a province where gambling is illegal to a province where gambling is legal. What impact does this move have on Canada's GDP?
- It raises GDP.
 - It decreases GDP.
 - It does not change GDP because in either case his income is included.
 - It does not change GDP because gambling is never included in GDP.

15. 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?

- 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.
- 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.
- Both the first and the second facts tend to make the reported unemployment rate higher than the actual unemployment rate.
- Both the first and the second facts tend to make the reported unemployment rate lower than the actual unemployment rate.

16. How would an economist use an aggregate expenditure line to trace out a single aggregate demand curve?

- by letting changes in the price level shift the aggregate expenditure line
- by letting changes in autonomous spending shift the aggregate expenditure line
- by letting changes in real GDP shift the aggregate expenditure line
- by letting changes in the level of income shift the aggregate expenditure line



17. Refer to the graph in the exhibit. Which of the following causes the shift in the curve?

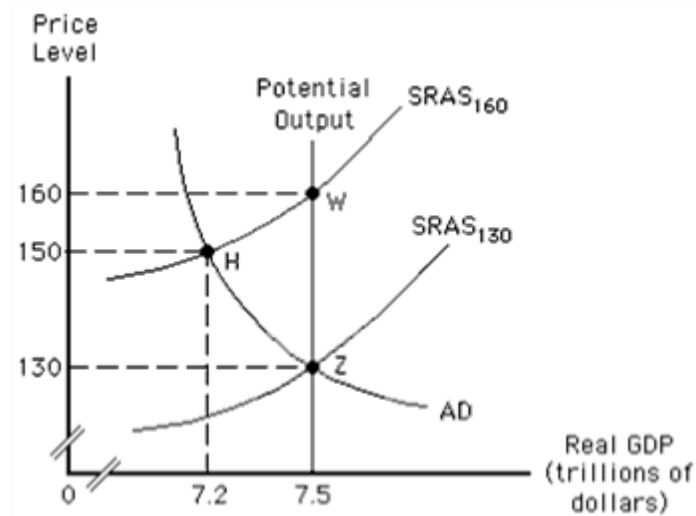
- a decrease in government spending
- an increase in labour productivity
- weather conditions that lead to worldwide crop failures
- an attempt by key resource producers to monopolize supply

18. Suppose the economy is producing below its potential output level. Which of the following characterizes the unemployment situation?

- a. Some cyclical unemployment would occur.
- b. The actual unemployment rate would equal the natural rate.
- c. Structural unemployment would be equal to zero.
- d. No cyclical unemployment would occur.

19. Which of the following is included in GDP?

- a. the sale of services such as visits to a doctor
- b. the sale of ownership in a new company
- c. the sale of used goods
- d. the sale of stocks and bonds



20. Refer to the graph in the exhibit. If the economy is at point H, what is the gap?

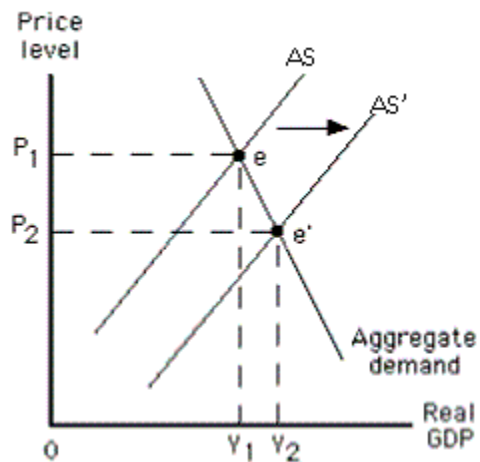
- a. an expansionary gap of \$300 billion
- b. a recessionary gap of \$300 billion
- c. an expansionary gap of 20
- d. a recessionary gap of 10

21. A Brazilian company produces soccer balls in Canada and exports all of them. If the price of the soccer balls increases, what happens to the Canadian GDP deflator and CPI?

- a. The GDP deflator and the CPI are both unchanged.
- b. The GDP deflator and the CPI both increase.
- c. The GDP deflator is unchanged, but the CPI increases.
- d. The GDP deflator increases, but the CPI is unchanged.

22. In the income-expenditure framework, suppose planned aggregate expenditures are greater than real GDP. How will inventories be affected?

- a. Inventories will decrease.
- b. Inventories will first increase, and then decrease.
- c. Inventories will increase.
- d. Inventories will stay the same.



23. Refer to the graph in the exhibit. What does the graph illustrate regarding the economy?

- a. that the expansionary gap has been closed
- b. that the contractionary gap has been closed
- c. that the economy will experience deflation
- d. that the economy will experience inflation

24. Which of the following is an example of basic research?

- a. A catalogue-sales company monitors its telephone operators to see how many calls each is handling per day.
- b. A chemist builds a mathematical model of the atmosphere of Jupiter.
- c. Soft-drink bottlers test consumer reactions to their advertisements.
- d. A statistician calculates the odds of winning a promotional sweepstakes.

25. Which of the following is NOT a part of planned aggregate spending?

- a. investment
- b. consumption
- c. saving
- d. government expenditures

26. Other things constant, how would a larger marginal propensity to consume affect the multiplier?
- The multiplier would remain the same.
 - The multiplier would become smaller.
 - The multiplier would become larger.
 - The multiplier would be negative.
27. Suppose autonomous consumption rises by \$0.8 trillion and the marginal propensity to consume equals three-quarters. By what amount will the equilibrium level of output demanded rise?
- by \$0.2 trillion
 - by \$0.6 trillion
 - by \$1.07 trillion
 - by \$3.2 trillion
28. Which of the following best describes the long run in terms of aggregate supply?
- The long-run aggregate supply slopes upwards.
 - The long-run aggregate supply curve is vertical.
 - The long-run aggregate supply slopes downwards.
 - The long-run aggregate supply curve is horizontal.
29. Suppose U = the number of adults who are unemployed, E = the number of adults who are employed, and NLF = the number of adults NOT in the labour force. Which expression would equal the labour force participation rate?
- $U/(U + E + NLF)$
 - $(U + E)/(U + E + NLF)$
 - $E/(U + E + NLF)$
 - $E/(U + E)$
30. Leslie is offered a job in Vancouver that pays \$50 000. She is also offered a job in Halifax that pays \$60 000. Which of the following sets of CPIs comes closest to giving both salaries the same purchasing power?
- 83.3 in Vancouver and 100 in Halifax
 - 89.3 in Vancouver and 100 in Halifax
 - 100 in Vancouver and 124.5 in Halifax
 - 100 in Vancouver and 140 in Halifax
31. Anna, a Canadian citizen who works in Germany for a French firm, receives her pay in a Swiss bank. To which country's GDP does Anna's employment contribute?
- Canada.
 - France
 - Germany
 - Switzerland

Table 5-4

Use the following table to answer the following questions.

Year	Price of Burgers	Quantity of Burgers	Price of Magazines	Quantity of Magazines
2010	\$4.00	100	\$2.00	180
2011	\$5.00	120	\$2.50	200
2012	\$6.00	150	\$3.50	200

32. Refer to the Table 5-4. Using 2010 as the base year, what can we conclude for 2011?
- Real GDP is \$950, and the GDP deflator is 95.
 - Real GDP is \$880, and the GDP deflator is 80.
 - Real GDP is \$880, and the GDP deflator is 95
 - Real GDP is \$880, and the GDP deflator is 125
33. What is the employment rate?
- the fraction of all people over the age of 14 that is employed
 - the fraction of the labour force that is employed
 - the fraction of all people over the age of 18 that is employed
 - the fraction of the civilian, non-institutional, adult population that is employed
34. Which of the following would cause the short-run aggregate supply curve to shift leftward?
- a technological breakthrough, with widespread practical applications, that occurs in the microcomputer industry
 - workers opting for more leisure time and less time on the job
 - a drop in energy prices
 - new investment spending that is greater than depreciation of the capital stock
35. Suppose that top government officials claim that “more people are working now than ever before.” What does this mean?
- The number of people in the labour force is higher now than ever before.
 - The number of employed people is higher now than ever before.
 - The unemployment rate is lower now than ever before.
 - The number of unemployed people is lower now than ever before.

Table 6-1

Year	Peaches	Pecans
2012	\$14 per bushel	\$9 per bushel
2013	\$12 per bushel	\$14 per bushel

36. Refer to the Table 6-1. Suppose that the typical consumer basket consists of 5 bushels of peaches and 10 bushels of pecans and that the base year is 2012. What is the consumer price index for 2013?

- a. 80
- b. 100
- c. 125
- d. 200

37. Suppose an apartment complex built in 2002 converts to a condominium in 2016 (i.e., the renters become owners of their apartments). Suppose the value of the condominium owners' housing services is now the same as their former rent. What happens to GDP?

- a. GDP necessarily increases.
- b. GDP is unaffected because previously rent was included in GDP, and now it is replaced by the estimate of the value of housing services.
- c. GDP is unaffected because neither the rent nor the estimate of the value of housing services is included in GDP.
- d. GDP necessarily decreases.

38. What would an improvement in the quality of capital do to the per-worker production function?

- a. It would shift the per-worker production function downward.
- b. It would rotate the per-worker production function upward.
- c. It would make the per-worker production function flatter.
- d. It would leave the per-worker production function where it is, but move to a higher point along the production function.

39. On the aggregate expenditure graph, suppose autonomous *saving* increases by \$15 billion. What will be the effect on the aggregate expenditure line?

- a. The aggregate expenditure line will shift upward by \$15 billion.
- b. The aggregate expenditure line will first shift downward, and then it will shift upward by \$15 billion.
- c. The aggregate expenditure line will stay in the same position.
- d. The aggregate expenditure line will shift downward by \$15 billion.

40. How is Latoya, a homemaker who works as a volunteer at the local Red Cross and is currently not looking for a job, counted?

- a. as employed and in the labour force
- b. as not in the labour force
- c. as unemployed and in the labour force
- d. as unemployed and not in the labour force

41. **BONUS:** Which province had the lowest unemployment rate in January, 2018?

- a. Ontario
- b. British Columbia
- c. Alberta
- d. New Brunswick