



Practice Midterm

Introduction to Macroeconomics(Willrid Laurier) niversity)

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Real GDP measures
 - A) the constant- dollar value of the potential output of the nation's economy over the period of one year.
 - B) the quantity of total output produced by the nation's economy over the period of one year.
 - C) the fluctuations of national income around its long- term trend.
 - D) the annual growth rate of real national income.
 - E) the long- term trend in total output produced by the nation's economy.

- 2) Suppose a country has an unemployment rate of 20%. If we know that the population is 38 million and the labour force is 25 million, then the number of people unemployed is
 - A) 2.6 million.
 - B) 5 million.
 - C) 7.6 million.
 - D) 13 million.
 - E) 20 million.

- 3) Economists expect some unemployment to exist even at times of "full employment" for, among others, the following reasons:
 - 1) actual GDP is rarely equal to potential GDP;
 - 2) as the economy changes, the structure of the existing labour force is not the same as the structure of labour demand;
 - 3) people entering the labour force typically take some time to find a job.
 - A) 1 only
 - B) 2 only
 - C) 3 only
 - D) 1 and 2
 - E) 2 and 3

The table below provides macroeconomic data for a hypothetical economy. Dollar amounts are all in constant-dollar terms.

| Year | Actual Output (billions of \$) | Potential Output (billions of \$) | Unemployment Rate (% of labour force) |
|------|-----------------------------------|--------------------------------------|--|
| 2009 | 402 | 404 | 7.1 |
| 2010 | 408 | 411 | 7.2 |
| 2011 | 415 | 415 | 6.3 |
| 2012 | 420 | 418 | 5.9 |
| 2013 | 422 | 420 | 6.0 |
| 2014 | 420 | 423 | 7.0 |
| 2015 | 425 | 425 | 6.3 |

TABLE 19-1

- 4) Refer to Table 19- 1. In which years was this economy experiencing a recessionary gap?
- A) 2009, 2010, 2011
 - B) 2009, 2010, 2014
 - C) 2011, 2015
 - D) 2012, 2013
 - E) 2013, 2014, 2015
- 5) Refer to Table 19- 1. In the year 2012, it is probably the case that workers are _____ and factories are _____.
- A) facing cyclical unemployment; facing temporary shut downs
 - B) working longer than normal hours; facing temporary shutdowns
 - C) experiencing zero unemployment; operating extra shifts
 - D) experiencing zero unemployment; operating beyond their normal capacity
 - E) working longer than normal hours; operating beyond their normal capacity
- 6) Suppose the Bank of Montreal wants a 4% real rate of return on all its loans, and anticipates an annual inflation rate of 6%. It should therefore lend its money at a nominal interest rate of
- A) 2%.
 - B) 4%.
 - C) 5%.
 - D) 6%.
 - E) 10%.

- 7) The real interest rate must be
- A) high if the nominal interest rate is high.
 - B) high if the inflation rate is greater than the nominal interest rate.
 - C) low if the nominal interest rate is high.
 - D) positive if the nominal rate of interest is greater than the rate of inflation.
 - E) negative if the nominal rate of interest is greater than the rate of inflation.
- 8) If nominal national income increased by 20% over a certain period of time while real national income increased by 10%, then
- A) everybody in the economy became worse off.
 - B) inflation has decreased during this time period.
 - C) the labour force increased by 10%.
 - D) the price level has declined by about 10%.
 - E) the price level has increased by approximately 10%.
- 9) If the Consumer Price Index changes from 120 in year one to 122 in year two, the rate of inflation in the intervening year is
- A) 0%. B) 1.7%. C) 2.0%. D) 20.0%. E) 22.0%.
- 10) Suppose Canada's exchange rate with the euro rises from 1.2 Canadian dollars per Euro to 1.4 Canadian dollars per Euro. This rise indicates a(n) _____ of the Canadian dollar, which means it takes _____ Canadian dollars to purchase one euro.
- A) appreciation; more
 - B) appreciation; fewer
 - C) depreciation; more
 - D) depreciation; fewer

- 11) When adding up the value of all goods produced in the economy, double counting can be avoided if only the _____ is included.
- A) value of final good and services
 - B) value of intermediate goods and services
 - C) cost of intermediate goods and services
 - D) revenue of all goods and services
 - E) revenue of intermediate goods and services
- 12) In Shoetown, a rancher takes \$0 worth of inputs and produces animal skins, which he sells to the tanner for \$400. The tanner then sells leather to the shoemaker for \$700, and the shoemaker then sells \$1200 worth of shoes. The *value added* from these transactions is
- A) \$400. B) \$700. C) \$1200. D) \$2300. E) \$2500.
- 13) Total investment that occurs in the economy is called gross investment. When calculating GDP using the expenditure approach, this investment component is equivalent to
- A) net investment only.
 - B) net investment minus depreciation.
 - C) gross investment plus depreciation.
 - D) net investment plus depreciation.
 - E) fixed investment minus depreciation.
- 14) When calculating GDP from the expenditure side, "actual consumption expenditures" includes
- A) the purchase of a new house.
 - B) American tourists travelling to and spending in Canada.
 - C) increases in automobile inventories.
 - D) the construction of an apartment building.
 - E) the monthly rental of an apartment.

The table below includes data for a one-year period required to calculate GDP from the expenditure side for a teeny-tiny economy.

| | |
|--------------------------------|-----------|
| Gross investment expenditure | \$402.00 |
| Wages and salaries | \$1741.00 |
| Consumption expenditure | \$1302.40 |
| Interest and investment income | \$99.40 |
| Business profits | \$70.40 |
| Depreciation | \$199.20 |
| Government purchases | \$486.80 |
| Net exports | \$94.00 |

TABLE 20-1

- 15) Refer to Table 20-1. What is the value of GDP, as calculated from the expenditure side?
- A) \$1982.60 B) \$1986.00 C) \$2010.00 D) \$2285.20 E) \$2584.40
- 16) To calculate GDP from the income side, one must add together wages,
- A) consumption and depreciation.
B) interest, rent, depreciation, profits and indirect taxes net of subsidies.
C) investment, rent, depreciation, profits and indirect taxes net of subsidies.
D) government income, interest, and profits.
E) net exports, depreciation, and profits.
- 17) Suppose that nominal national income in some country increased by 10% during the year, when inflation was 5%. Therefore the real national income
- A) fell by 10%.
B) fell by 5%.
C) was unaffected.
D) rose by 5%.
E) rose by 10%.

The table below shows total output for an economy over 2 years.

| 2015 | Price | Quantity |
|--------|---------|-----------|
| Good A | \$1.00 | 100 units |
| Good B | \$2.00 | 200 units |
| Good C | \$5.00 | 100 units |
| | | |
| 2016 | Price | Quantity |
| Good A | \$2.00 | 120 units |
| Good B | \$3.00 | 200 units |
| Good C | \$10.00 | 98 units |

TABLE 20-5

- 18) Refer to Table 20-5. The real GDP in 2016, expressed in 2015 prices, was
A) \$700. B) \$840. C) \$970. D) \$1010. E) \$1740.
- 19) Refer to Table 20-5. The implicit GDP deflator in 2016, when 2015 is used as the base year, was approximately
A) 105. B) 160. C) 180. D) 193. E) 203.
- 20) A country's computed GDP deflator
1) excludes the changes in the price of imported goods;
2) is less relevant than the measured CPI for the typical consumer;
3) is set to be equal to 100 in its base year.
A) 1 only B) 2 only C) 1 and 3 D) 2 and 3 E) 1, 2, and 3

- 21) Measures of GDP may understate the economic well-being of people in developing countries if those countries tend to
- A) import much more than they export.
 - B) have a high degree of foreign direct investment.
 - C) emphasize agricultural and resource-based production.
 - D) have very high rates of pollution.
 - E) have a large share of nonmarket activities.
- 22) Historically, nominal GDP has increased faster than real GDP because
- A) the general price level has fallen.
 - B) improvements in product quality have not been reflected in prices.
 - C) exports have risen more rapidly than imports.
 - D) imports have risen more rapidly than exports.
 - E) the general price level has increased.
- 23) One reason that real GDP tends to overstate the economic well-being of the country's residents is that it ignores
- A) the costs of increased leisure time.
 - B) the market-based activity done from the home.
 - C) the economic "bads" associated with production, such as pollution.
 - D) non-market activities, such as teenaged-babysitting services.
 - E) illegal activities, such as the drug trade.
- 24) In a simple macro model, a decrease in households' wealth is generally assumed to
- A) cause no change in consumption because consumption is a function of disposable income only.
 - B) cause no change in consumption because the decline is always expected.
 - C) cause a downward shift in the consumption function.
 - D) cause an upward shift in the consumption function.
 - E) affect only saving, not consumption.

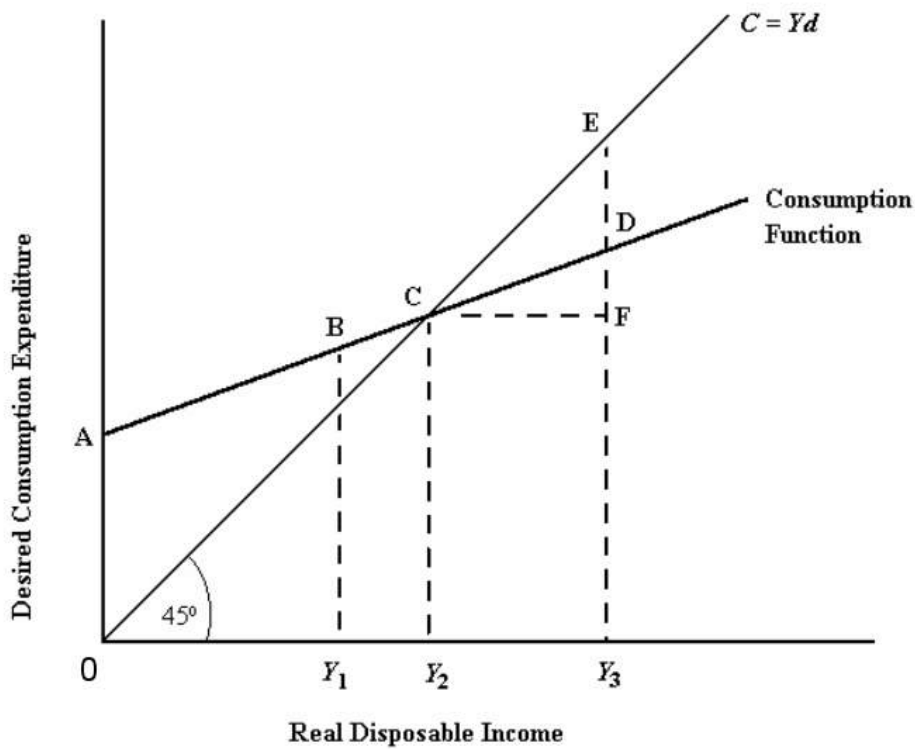


FIGURE 21-1

25) Refer to Figure 21- 1. The APC will be equal to one (1.0) when disposable income is equal to

- A) 0.
- B) Y_1 .
- C) Y_2 .
- D) Y_3 .
- E) desired saving.

26) Refer to Figure 21- 1. If disposable income is Y_3 , the level of desired saving is

- A) DE.
- B) FD.
- C) Y_3F .
- D) Y_3D .
- E) Y_2Y_3 .

- 27) Consider a consumption function of the following form: $C = 50 + (0.6)Y_D$. At what level of disposable income will desired savings be equal to zero?
- A) 31.25 B) 50.0 C) 83.33 D) 125.0 E) 208.33
- 28) Consider the following news headline: "Increase in consumer confidence leads to increase in spending". Which of the following correctly describes the likely effect in our simple macro model?
- A) the consumption function shifts downward
B) the consumption function gets flatter
C) the AE function shifts upward
D) the consumption function shifts upward
E) both C and D are correct
- 29) In a simple model of the economy, without government or taxes, a shock that causes an upward shift of the aggregate consumption function also causes _____ shift of the saving function.
- A) an equal downward
B) an equal upward
C) a less- than- equal downward
D) a less- than- equal upward
E) no
- 30) Consider a simple macro model with a constant price level and demand- determined output. Suppose the level of actual national income is *less than* desired aggregate expenditure. In this case,
- A) inventories will build up, causing national income to rise.
B) national income will fall, because desired expenditures are less than actual expenditures.
C) shortages of goods and reductions in inventories will cause producers to increase output and national income to rise.
D) national income may increase or decrease, depending on the relative sizes of the average propensity to consume and the average propensity to save.
E) there will be no change in national income because only actual expenditure is relevant.

Consider the following information describing an economy with demand-determined output. There is no government or foreign trade. All dollar figures are in billions.

1. equilibrium condition is $Y = C + I$
2. marginal propensity to save = 0.20
3. the autonomous part of C is \$50
4. investment is autonomous and equals \$25

SCENARIO 21-5

- 31) Refer to Scenario 21- 5. The equilibrium level of national income is
A) \$75. B) \$94. C) \$155. D) \$249. E) \$375.
- 32) Refer to Scenario 21- 5. At the equilibrium level of national income, what is the level of desired consumption expenditures?
A) \$69 B) \$125 C) \$150 D) \$350 E) \$375
- 33) Consider an exogenous increase in the real interest rate in the simple macro model. This will tend to cause _____ in desired consumption and _____ in desired investment.
A) an increase; an increase
B) an increase; a decrease
C) a decrease; a decrease
D) a decrease; no change
E) a decrease; an increase
- 34) Consider a simple macro model with a constant price level and demand- determined output. If the marginal propensity to spend in such a model is 0.6, the simple multiplier is
A) 0. B) 0.6. C) 1.67. D) 2.5. E) 6.0

- 35) Consider a simple macro model with a constant price level and demand- determined output. Using this model, if economists want to estimate the effect of a given change in desired investment on equilibrium national income, they would multiply the change in desired investment by the
- A) average propensity to save.
 - B) marginal propensity to save.
 - C) equilibrium level of national income.
 - D) simple multiplier.
 - E) reciprocal of the marginal propensity to spend.
- 36) A decrease in the marginal propensity to spend out of national income will cause
- A) an increase in the slope of the *AE* curve, which rotates it upward.
 - B) a decrease in the slope of the *AE* curve, which rotates it downward.
 - C) a parallel downward shift in the *AE* curve.
 - D) a movement to the left along the *AE* curve.
 - E) a movement to the right along the *AE* curve.
- 37) Consider the simplest macro model with demand- determined output. Suppose an increase in business confidence leads firms to increase investment in new equipment by \$100 million. The marginal propensity to spend in this economy is 0.75. What is the eventual total new expenditure in this economy due to the increase in investment?
- A) \$75 million
 - B) \$100 million
 - C) \$133 million
 - D) \$400 million
 - E) \$500 million
- 38) Suppose aggregate output is demand- determined. Suppose a decrease in autonomous investment expenditure of \$20 million reduces equilibrium national income by \$50 million. The simple multiplier is equal to
- A) -2.5.
 - B) -0.6.
 - C) 0.4.
 - D) 0.6.
 - E) 2.5.

- 39) Suppose $Y=400$ and the government's net tax rate is 10%. If we are told that the government has a budget surplus, then government purchases must be
- A) greater than 30.
 - B) less than 30.
 - C) greater than 40.
 - D) less than 40.
 - E) Not enough information to know.
- 40) When determining the *AE* function for an open economy with government, it is generally assumed that as real national income
- A) increases, exports will decrease.
 - B) increases, net exports will decrease.
 - C) increases, imports will decrease.
 - D) decreases, net exports will decrease.
 - E) decreases, exports will decrease.
- 41) A parallel downward shift in the net export (NX) function can be caused by
- A) an increase in domestic national income.
 - B) a decrease in foreign national income.
 - C) a decrease in domestic prices.
 - D) an increase in the Canadian- dollar price of foreign currency.
 - E) a decrease in foreign prices.

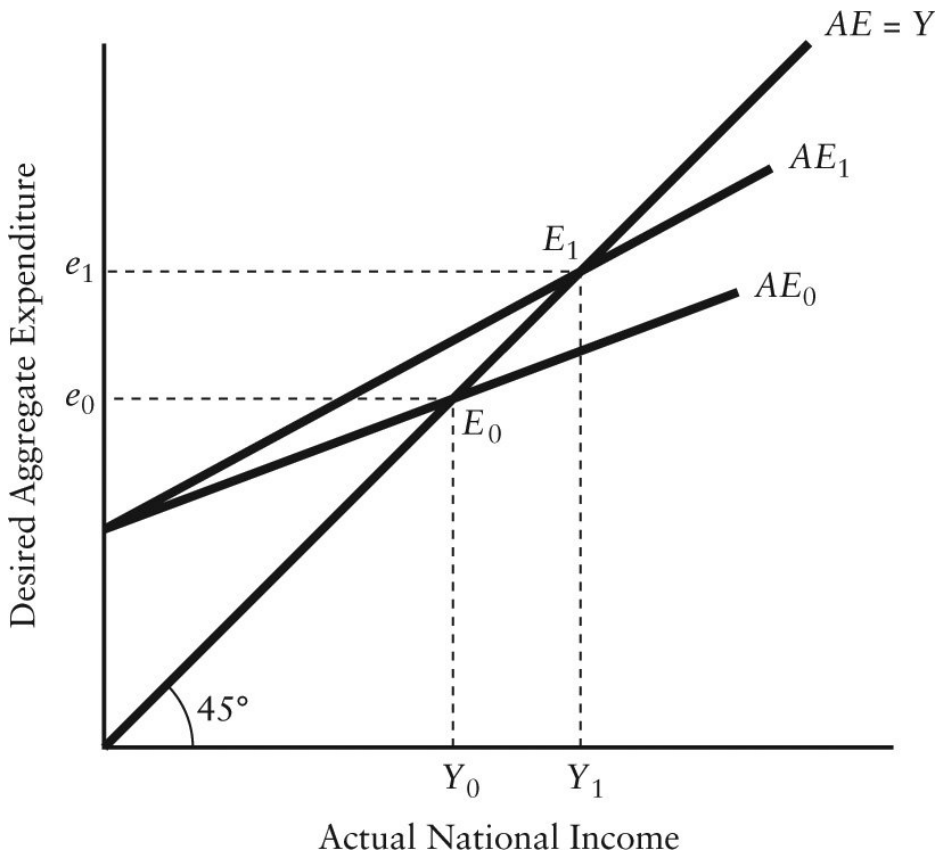


FIGURE 22-4

- 42) Refer to Figure 22- 4. The rotation from AE_1 to AE_0 could be caused by
- A) an increase in the marginal propensity to import.
 - B) a decrease in the marginal propensity to import.
 - C) an increase in the marginal propensity to consume out of disposable income.
 - D) a decrease in the net tax rate.
 - E) a decrease in government purchases.
- 43) In a simple macro model with a constant price level, a decrease in the net tax rate causes the AE curve to
- A) shift parallel downward.
 - B) shift parallel upward.
 - C) rotate downward.
 - D) rotate upward.
 - E) remain stationary.

- 44) Consider the simplest macro model with demand- determined output. The equations are: $C = 150 + 0.8Y_d$, $Y_d = Y - T$, $I = 400$, $G = 700$, $T = .2Y$, $X = 130$, and $IM = 0.14Y$. Autonomous expenditures in this model are
- A) 1120. B) 1350. C) 1380. D) 2700. E) 5400.
- 45) Consider a macro model with demand- determined output. The equations are: $C = 150 + 0.8Y_d$, $Y_d = Y - T$, $I = 400$, $G = 700$, $T = 0.2Y$, $X = 130$, and $IM = 0.14Y$. Equilibrium national income in this model is
- A) 1120. B) 1350. C) 2240. D) 2760. E) 5400.
- 46) Consider a simple macro model with demand- determined output. Suppose the level of exports decreases unexpectedly by \$6 billion. If the government wants to restore the initial equilibrium level of output it could, all other things equal
- A) increase its purchases by more than \$6 billion.
 B) increase its net tax revenues by \$6 billion.
 C) increase its net tax revenues by less than \$6 billion.
 D) increase its purchases by \$6 billion.
 E) decrease its purchases by \$6 billion.
- 47) In a simple macro model with government and demand- determined output, to raise equilibrium national income by \$100 billion, G must be
- A) lowered by \$100 billion times the simple multiplier.
 B) lowered by \$100 billion divided by the simple multiplier.
 C) raised by \$100 billion.
 D) raised by \$100 billion times the simple multiplier.
 E) raised by \$100 billion divided by the simple multiplier.

- 48) Consider a model in which output is demand- determined. If the marginal propensity to spend out of national income is 0.4, then a \$0.6 billion decrease in government purchases will cause equilibrium national income to _____ by approximately _____.
- A) decrease; \$0.24 billion
 - B) decrease; \$1.00 billion
 - C) decrease; \$1.50 billion
 - D) increase; \$1.00 billion
 - E) increase; \$1.50 billion
- 49) Consider the following news headline: "Finance minister announces that the federal income- tax rate will rise by three percentage points." Assuming that aggregate output is demand- determined, what will be the effect of this action, all other things equal, on the AE function and equilibrium national income?
- A) The AE function will shift down parallel to itself and equilibrium national income will fall.
 - B) The AE function will rotate upward (become steeper) and equilibrium national income will rise.
 - C) The AE function will rotate downward (become flatter) and national income will fall.
 - D) The AE function will shift up parallel to itself and equilibrium national income will rise.
 - E) There will be no change in the AE function or in equilibrium national income.
- 50) Consider the following news headline: "China signs deal to buy more Canadian wheat." Assuming that aggregate output is demand- determined, what effect will this have, all other things equal, on the AE function and on equilibrium national income?
- A) The AE function will shift down parallel to itself and equilibrium national income will fall.
 - B) The AE function will rotate upward (become steeper) and equilibrium national income will rise.
 - C) The AE function will rotate downward (become flatter) and national income will fall.
 - D) The AE function will shift up parallel to itself and equilibrium national income will rise.
 - E) There will be no change in the AE function or in equilibrium national income.

Answer Key

Testname: MIDTERM1-A-2017

- | | |
|-------|-------|
| 1) B | 43) D |
| 2) B | 44) C |
| 3) E | 45) D |
| 4) B | 46) D |
| 5) E | 47) E |
| 6) E | 48) B |
| 7) D | 49) C |
| 8) E | 50) D |
| 9) B | |
| 10) C | |
| 11) A | |
| 12) C | |
| 13) D | |
| 14) E | |
| 15) D | |
| 16) B | |
| 17) D | |
| 18) D | |
| 19) C | |
| 20) E | |
| 21) E | |
| 22) E | |
| 23) C | |
| 24) C | |
| 25) C | |
| 26) A | |
| 27) D | |
| 28) E | |
| 29) A | |
| 30) C | |
| 31) E | |
| 32) D | |
| 33) C | |
| 34) D | |
| 35) D | |
| 36) B | |
| 37) D | |
| 38) E | |
| 39) D | |
| 40) B | |
| 41) B | |
| 42) A | |