



Name: _____

Student Number: _____

ECO1102E, Introduction to Macroeconomics
Professor G. Lenjosek
First Midterm
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Instructions

1. Silence all cell phones and any other devices, and remain quiet at all times during the exam.
2. Only non-programmable calculators may be used during the exam. You may NOT share non-programmable calculators.
3. Place your student card face up on your desk for the duration of the exam.
4. This questionnaire is printed *double sided*. Fill in your name and student number on the first page of *this questionnaire*. You may use the detachable blank sheet at the end of the questionnaire for your rough work.
5. Print the COURSE CODE, your STUDENT NUMBER and your LAST NAME ONLY on the *Answer Sheet* provided. Then blacken the cells (little ovals) using a pencil. Exams with missing or incomplete personal information will not be graded.
6. There are 50 multiple choice questions in total, each worth 1 point. Make sure your copy is complete.
7. Use the Answer Sheet to answer the Multiple Choice questions. *Do so by identifying the letter of the choice that best completes the statement or answers the question.*
8. When you have finished, personally hand your *completed Answer Sheet and questionnaire* to one of the TAs or me.
9. Please look at the blackboard from time to time for information and/or possible corrections.

You have 80 minutes to complete the exam. Good luck !!

- 1) A reduction in current consumption to pay for the investment in capital intended to increase future production is known as the:
 - A) income trade-off.
 - B) substitution effect.
 - C) consumption effect.
 - D) investment trade-off.

- 2) The study of economics can help us:
 - A) make the best choices around how to spend our time and money.
 - B) be smarter voters.
 - C) better understand the impacts of public policies.
 - D) All of the above are true.

- 3) Carol is a coal miner who just got laid off when the last coal mine in the area was shut down. She has looked everywhere for another job as a miner, but cannot find one. Given that Carol is unlikely to find another job as a miner, she would be considered:
 - A) frictionally unemployed.
 - B) a discouraged worker.
 - C) structurally unemployed.
 - D) real-wage unemployed.

- 4) Your sister always brags about how savvy of a grocery shopper she is. She believes that she saves lots of money by paying with coupons and making her grocery purchases at multiple stores to get the lowest prices on all goods. She may overestimate her savings because:
 - A) she does not count the value of the time it took to sort and clip coupons as a cost.
 - B) she does not count the cost of the gas used driving extra kilometers to multiple grocery stores.
 - C) she does not count the value of the extra time it takes to stand in multiple lines at multiple stores and use multiple coupons compared to a trip to one store with no coupons.
 - D) All of the above are true.

- 5) The field of macroeconomics studies _____ and microeconomics studies _____.
 - A) variables within a single economy; international variables
 - B) international variables; variables within a single economy
 - C) economic aggregates; individual markets
 - D) individual markets; economic aggregates

- 6) If Canadian real GDP grew from \$2.04 trillion one year to \$2.11 trillion the next, the annual growth rate would be:
 - A) 0.033 percent.
 - B) 3.3 percent.
 - C) 3.4 percent.
 - D) 7.0 percent.

- 7) Classical unemployment can be caused by which of the following?
 - A) Increases in income tax
 - B) Sectoral shifts
 - C) Unions
 - D) A firm giving a raise to its employees

- 8) Opportunity cost:
 - A) only includes explicit, out of pocket expenses.
 - B) is the value of your next best alternative.
 - C) is never provided in dollar values.
 - D) would not include the wages lost from working when deciding to take a vacation.

- 9) Someone who is underemployed is someone who:
- A) could be contributing less output to society by either working more, or by working using more advanced skills he possesses but doesn't currently use.
 - B) is working part-time, but wants full-time employment.**
 - C) is working in a job for which they are under qualified.
 - D) All of these describe one who is underemployed.
- 10) A GDP deflator of less than 100 indicates a year in which prices are:
- A) higher than in the current year.
 - B) lower than in the base year.**
 - C) lower than in the current year.
 - D) higher than in the base year.
- 11) Employment insurance:
- A) will not affect the natural rate of unemployment.
 - B) can affect how quickly people find jobs.**
 - C) is offered by the employer as a way to affect the level of structural unemployment.
 - D) is an explanation for why wages do not reach equilibrium.
- 12) During times of recession, the labour force participation rate typically:
- A) rises, as more people need work.
 - B) falls, as more people cannot find work, they stay in jobs that aren't a good fit.
 - C) rises, as more incomes per household are needed to make ends meet.
 - D) falls, as more people give up and stop looking for work.**
- 13) Over the last 100 years or so, the Canadian economy has grown at an annual average rate of about:
- A) 4 percent.
 - B) 3 percent.
 - C) 2 percent.**
 - D) 1 percent.
- 14) Which of the following is not an intermediate good?
- A) A new engine put into a new Toyota car.
 - B) Tires purchased by Ford to put on their new Explorers.
 - C) Tomatoes used by Ortega to make their salsa.
 - D) Tires sold by Goodyear to put on your Explorer.**
- 15) If a country devotes its resources to acquiring more physical capital:
- A) it will decrease its productivity.
 - B) it will increase its output per person.**
 - C) it will increase its current consumption.
 - D) All of the above are true.
- 16) Gross domestic product (GDP) is:
- A) the sum of the market values of all final goods and services produced by a country's citizens in a given period of time.
 - B) the sum of the market values of all final goods and services produced in a country in a given period of time.**
 - C) the sum of the market values of all intermediate goods and services produced in a country in a given period of time.
 - D) the number of all final goods and services produced by a country's citizens in a given period of time.

17) GDP:

- A) per capita gives us a sense of the average economic well-being in a country.
- B) measures the average economic well-being of the global economy.
- C) measures a firm's production
- D) measures average wages.

18) Which is not one of the four basic questions used by economists to break down problems?

- A) What are the trade-offs?
- B) Why isn't everyone already doing it?
- C) What do others think?
- D) How will others respond?

19) Which of the following is a direct result of scarcity?

- A) Buildings in Toronto are taller than buildings in Hamilton due to fewer acres of land per person.
- B) Due to high gas prices, Shana decides to trade her Chevy Tahoe for a Honda Accord.
- C) A college student misses a test review in order to sleep in.
- D) All of the above are true.

20) Old Age Security payments:

- A) cause concern for Parliament, due to the increase in life expectancies.
- B) are not adjusted for inflation.
- C) don't hold their value over time.
- D) hold their value over time.

21) Assume the table below records the total output and prices of the only two goods produced in the country of Andalusia. Based on the figures in the table, the GDP deflator in 2020 was:

| Year | Football (in millions) | Price of football | Books (in millions) | Price of books |
|-------------------|---------------------------|----------------------|------------------------|-------------------|
| 2017 Base Year | 5.5 | 4 | 8 | 5 |
| 2018 | 5 | 5 | 7 | 6 |
| 2019 | 4.5 | 6 | 6 | 7 |
| 2020 | 4 | 7 | 5 | 8 |

- A) 60.
- B) 74.
- C) 136.
- D) 166.

22) Human capital:

- A) is always decreasing.
- B) is always increasing.
- C) is better when acquired as an adult.
- D) can become outdated or deteriorate.

23) Frictional unemployment:

- A) is the most alarming cause of unemployment.
- B) is unemployment caused by workers who are changing their location, job, or career.
- C) is unemployment that results from a mismatch between the skills workers can offer and the skills that are in demand.
- D) is the effect of wages remaining persistently above the market-clearing level.

24) The poverty trap refers to:

- A) richer countries spiraling downward into poverty if they fail to invest enough in physical capital.
- B) richer countries spiraling downward into poverty if they invest in the wrong industries.
- C) poorer countries having a harder time buying the things that will end their poverty.**
- D) All of these describe the poverty trap.

25) Savings that pay for capital investment can come from:

- A) domestic households.
- B) outside a country.
- C) government.
- D) All of the above are true.**

26) Unemployment occurs when someone:

- A) has useful skills that are not being used.
- B) is not working.
- C) wants to work but cannot find a job.**
- D) should be working but chooses not to.

27) When a country adds more capital to its existing stock:

- A) the additional productivity is more than the previous increases to productivity.
- B) the additional productivity is less than the previous increases to productivity.**
- C) it experiences rapidly increasing rates of growth.
- D) it experiences rapid declines in its level of income.

28) Suzi is a British citizen who works for Yankee Candles in Massachusetts. Suzi's work will be included in:

- A) England's GDP since she's a British citizen.
- B) U.S. GDP since she's working for a U.S. firm.
- C) U.S. GDP since she's working for a firm located in the U.S.**
- D) both the U.S. and England's GDP.

29) Using the information in the table below, what is the 2019 value of the salary listed in 1989?

| Year | Salary | CPI |
|------|-----------|-------|
| 1979 | \$20,520 | 36.7 |
| 1989 | \$43,265 | 72.6 |
| 1999 | \$85,529 | 124.0 |
| 2009 | \$135,250 | 166.6 |
| 2019 | \$170,844 | 214.5 |

- A) \$119,933
- B) \$127,828**
- C) \$147,951
- D) \$174,136

30) Upon getting a big promotion, Sally decides to buy a house in the neighbourhood she grew up in as a child. In fact, the house she buys used to belong to a neighbour of hers, and so she's certain it's in good shape and well worth the \$400,000 she pays for it. The only thing Sally needs to do is replace all the gutters for \$5,000, which she happily does. How will GDP be affected by Sally's recent purchases?

- A) Consumption will increase by \$5,000.**
- B) Consumption will increase by \$405,000.
- C) Consumption will increase by \$5,000 and investment will increase by \$400,000.
- D) Investment will increase by \$405,000.

31) A rational choice is one that:

- A) is usually optimized when decision makers are poorly informed about alternatives.
- B) involves the use of strategic decision making in an effort to reach a goal.
- C) does not involve self-interested behavior.
- D) allows individuals to reach their goals.

32) Which of the following is considered a macroeconomic topic?

- A) iTunes raises the price of all its music.
- B) Jay-Z decides to sell his Brooklyn Nets minority ownership.
- C) iTunes raises the price of its pop artists music only.
- D) The labour force participation rate fell by 1 percentage point in 2010.

33) Using the information in the table shown, what can be said about the rate of inflation?

| Year | CPI |
|------|-----|
| 2015 | 94 |
| 2016 | 99 |
| 2017 | 100 |
| 2018 | 104 |
| 2019 | 117 |

- A) Deflation occurred every year from 2015 to 2019.
- B) Deflation occurred before 2017, then inflation occurred.
- C) Inflation occurred every year from 2015 to 2019.
- D) Inflation occurred before 2017, then deflation occurred.

34) An example of a good or service that would count in the Canadian GDP would be:

- A) a bag of coffee made in Colombia by Dunkin' Donuts.
- B) a bag of coffee made in British Columbia by Kicking Horse Coffee.
- C) a bag of coffee made in the U.S. by Tim Hortons.
- D) a bag of coffee made in the U.S. by Starbucks.

35) When two variables have been observed to have a tendency to occur at the same time, we can say there is _____ but not necessarily _____.

- A) positivity; causation
- B) causation; correlation
- C) normality; correlation
- D) correlation; causation

36) Which of the following does not appear in GDP as a part of government spending?

- A) City fireworks displays on the first of July
- B) Clipboards at the Department of Motor Vehicles
- C) Maintenance of government buildings
- D) Social security payments

37) Supporters of minimum-wage legislation argue that:

- A) workers deserve a basic standard of living.
- B) it should be set below the market equilibrium wage..
- C) some workers will become unemployed as a result of the minimum wage.
- D) All of the above are true.

38) Unemployment is a:

- A) lagging indicator, because the business cycle follows it.
- B) leading indicator, because the business cycle follows it.
- C) leading indicator, because it follows the business cycle.
- D) lagging indicator, because it follows the business cycle.

39) We can estimate that if a country grows at 3.5 percent per year, it will double its real GDP per capita in:

- A) 5 years.
- B) 10 years.
- C) 20 years.
- D) 25 years.

40) The table below shows price-level adjustments as compared to Canada. According to the information provided, if someone makes \$40,000 in Canada, what would her comparable Canadian dollar salary need to be in Australia to maintain the same standard of living?

| Country | Price-Level Adjustment |
|-----------|------------------------|
| Australia | 0.05 |
| China | -0.25 |
| Mexico | -0.34 |
| Canada | 0 |

- A) \$26,400
- B) \$30,000
- C) \$40,000
- D) \$42,000

41) We don't typically see wages _____ in response to an economic downturn because _____.

- A) rise; they cannot rise above the equilibrium in any circumstance
- B) rise; they are "sticky," and are slow to respond to shifts in the economy
- C) fall; they cannot fall below where they were previously set due to inflation
- D) fall; they are "sticky" and are slow to respond to shifts in the economy

42) If consumption is \$9 billion, investments is \$4 billion, government purchases are \$2 billion, imports are \$1 billion, and exports are \$2 billion, GDP must equal:

- A) \$14 billion.
- B) \$16 billion.
- C) \$15 billion.
- D) \$17 billion.

43) The price of pizza falls relative to the price of spaghetti, so people buy more pizza instead of spaghetti. This is an example of responding to:

- A) incentives.
- B) sunk benefits.
- C) disincentives.
- D) marginality.

44) Which approach for calculating GDP is especially useful in clarifying the resale of existing goods?

- A) The income approach
- B) The expenditure approach
- C) The value-added approach
- D) wages + interest + government income + profits

45) One of the most crucial ideas in macroeconomics is understanding that:

- A) zero unemployment is the best way to achieve economic growth.
- B) prolonging economic downturns can be prolonged by fiscal policy.
- C) measuring total expenditures or total income both equal total production of an economy.
- D) GNP is the most commonly used measurement of total production.

46) A Chinese restaurant buys 10 cups of rice for \$1; soy, fish and oyster sauces for \$1 each; and assorted vegetables for \$20. They create 9 meals with these ingredients and sell each one for \$5. How much does this process contribute to GDP?

- A) \$33
- B) \$50
- C) \$45
- D) \$31

47) According to the table below, what can be said about the cost of living in 2017?

| Year | CPI |
|------|-----|
| 2015 | 99 |
| 2016 | 100 |
| 2017 | 105 |
| 2018 | 104 |
| 2019 | 106 |

- A) Every consumer experienced a 5 percent increase in the cost of living compared to 2016.
- B) Everything consumers bought in 2017 cost 5 percent more than in 2016.
- C) The typical consumer must spend 5 percent more in 2017 than in 2016 in order to buy the same goods.
- D) None of these statements is true.

48) Increases in productivity per person lead to:

- A) economic growth.
- B) increases in GDP per capita.
- C) increases in per capita income.
- D) All of the above are true.

49) When we say the cost of living has gone down, we mean that, looking broadly over a range of goods and services:

- A) a dollar buys more today than it used to buy.
- B) a dollar buys less today than it used to buy.
- C) our income has increased to match the cost of those goods.
- D) a dollar buys the same today as it used to buy.

50) Making a decision "on the margin" involves comparing:

- A) sunk costs against opportunity costs.
- B) additional benefits against additional costs.
- C) total benefits against total costs, which include benefits and costs from past decisions.
- D) All of the above are true.

Detach and use this page for rough work, if you wish.