

ECN204

Midterm Examination

Friday October 19, 2018

Two-hour time limit

Be sure you have the right Scantron sheet. Use a lead pencil.

RIGHT ANSWERS

Name: _____ Date: _____

1. Which is MOST likely a macroeconomic, not microeconomic, question?
 A) Is the national unemployment rate rising or falling?
B) Are consumers buying more bottled water and less fruit juice?
C) Are salaries for nurses rising or falling?
D) Should a tax be levied on each tonne of carbon dioxide a factory emits?

2. Monetary policy attempts to affect the overall level of spending by making changes in:
A) taxes.
B) taxes and spending.
C) taxes and interest rates.
 D) interest rates and the quantity of money.

3. An increase in the nation's overall price level is:
A) long-term economic growth.
B) unemployment.
 C) inflation.
D) deflation.

4. Price stability occurs when:
A) the overall price level is zero.
B) the economy is at full employment.
 C) the overall cost of living is changing very slowly.
D) food prices have remained the same.

5. A depression occurs when:
A) both output and employment increase.
 B) the economic downturn becomes extremely deep and prolonged.
C) both price level and unemployment increase.
D) output rises but employment remains unchanged.

6. The trough of the business cycle:
A) comes right after the expansion phase.
B) comes before the recession phase.
C) is a temporary maximum level of real GDP.
 D) is a temporary minimum level of real GDP.

7. The national income and product accounts keep track of:
- A) consumer spending.
 - B) interest rates.
 - C) rates of inflation.
 - D) exchange rates.
8. If we add up the consumer spending on goods and services, investment spending, government purchases of goods and services, and the value of exports, then subtract the value of imports, we have measured the nation's:
- A) disposable income.
 - B) gross domestic product.
 - C) trade deficit.
 - D) budget deficit.
9. A laptop computer that is purchased by an accounting firm is considered to be:
- A) consumption spending.
 - B) investment spending.
 - C) private saving.
 - D) a pre-tax dividend.
10. If real GDP falls while nominal GDP rises, then prices on average have:
- A) risen.
 - B) fallen.
 - C) stayed the same.
 - D) Real GDP cannot rise when nominal GDP falls.
11. In a market basket of goods:
- A) the quantities stay constant and the prices may change.
 - B) the quantities may change and the prices are held constant.
 - C) both the prices and the quantities are held constant.
 - D) both the prices and the quantities may change.
12. If the consumer price index changes from 120 to 125 between December 2009 and December 2010, the:
- A) inflation rate for 2010 is 4.2%.
 - B) inflation rate for 2010 is 5%.
 - C) deflation rate for 2010 is 5%.
 - D) deflation rate for 2010 is 4.2%.

13. Suppose that the market basket for the university student price index (USPI) consists of 5 textbooks and 100 litres of gasoline. In 2010, the base year for this index, textbooks cost \$50 each and gasoline costs \$1 per litre. In 2011, textbooks cost \$80 each and gasoline costs \$3 per litre. The USPI for 2011 is:
- A) 100.
 - B) 150.
 - C) 200.
 - D) 250.
14. The labour force is the total:
- A) number of people employed.
 - B) population.
 - C) number of people in the population of working age.
 - D) number of people who are employed or unemployed.
15. If a country has a working-age population of 200 million, 135 million people with jobs, 10 million people who were looking for a job but have given up, and 5 million people who are unemployed and seeking employment, then its labour force is _____ million.
- A) 150
 - B) 145
 - C) 140
 - D) 135
16. Anna recently moved to Calgary with her husband Joe, who has a new job as an economics professor at the University of Calgary. She is an experienced surgeon who is interviewing with several hospitals in Calgary. Anna is:
- A) frictionally unemployed.
 - B) structurally unemployed.
 - C) cyclically unemployed.
 - D) counted as employed since she is likely to receive a job offer soon.
17. An example of structural unemployment is a(n):
- A) autoworker who is temporarily laid off because of a decline in sales.
 - B) geologist who is permanently laid off because of an increase in wages won by labour unions.
 - C) worker at a fast-food restaurant who quits work and attends university.
 - D) real estate agent who leaves a job in Montreal and searches for a similar, higher paying job in Toronto.

18. Firms pay an efficiency wage because:
- A) it reduces the risk of losing the best workers.
 - B) it is required by law.
 - C) they don't have to offer health insurance if they pay efficiency wages.
 - D) it reduces the employee's income tax liability.
19. Suppose that immigration laws are relaxed and many workers from other nations enter the Canadian labour force. The _____ labour will _____.
- A) demand for; increase
 - B) demand for; decrease
 - C) supply of; decrease
 - D) supply of; increase
20. When inflation rises quickly, borrowers will _____ and lenders will _____.
- A) be hurt; benefit
 - B) benefit; be hurt
 - C) be hurt; be hurt
 - D) benefit; benefit
21. A key input for measuring economic growth is:
- A) the size of the government's budget.
 - B) real GDP per capita.
 - C) life expectancy.
 - D) the S&P/TSX Composite Index.
22. China has much higher rate of growth than Canada, but the average Chinese household is _____ a typical Canadian household. China's real GDP per capita is _____ that of Canada.
- A) as well off as; catching up with
 - B) richer than; much higher than
 - C) still a bit poorer than; catching up with
 - D) still far poorer than; much lower than
23. If real GDP doubles in 35 years, its average annual growth rate is approximately:
- A) 1%.
 - B) 2%.
 - C) 3%.
 - D) 4%.

24. Labour productivity growth can be attributed to:
- A) improvement in technology.
 - B) a decline in university attendance.
 - C) an increase in population growth.
 - D) a decline in the physical capital per worker.
25. Technological progress is advanced through:
- A) research and development.
 - B) government regulation.
 - C) consumption.
 - D) infrastructure.
26. Infrastructure includes:
- A) Montreal's metro (subway) system.
 - B) corporate bonds.
 - C) private equity firms.
 - D) the water supply system, government bonds, and corporate stock.
27. The convergence hypothesis says that:
- A) differences in real GDP per capita among countries tend to narrow over time.
 - B) differences in real GDP per capita among countries tend to increase over time.
 - C) differences in real GDP per capita do not have much effect on living standards in the long run.
 - D) aggregate production functions in different countries will all be the same in the long run.
28. In the 1970s, consumers responded to:
- A) low oil prices by buying large cars, trucks, and SUVs that were not fuel efficient.
 - B) low oil prices by using other types of energy.
 - C) high oil prices by buying small, fuel-efficient cars.
 - D) high oil prices by agreeing to cap and trade policies to limit the use of oil.
29. The biggest global environment issue is:
- A) the impact of fossil-fuel consumption on the world's climate.
 - B) the availability of coal.
 - C) how to determine who has the property rights to wind power.
 - D) how to extract oil from Canadian tar sands.

30. From the standpoint of economic growth, banks are important to:
- A) fight inflation.
 - B) keep interest rates low.
 - C) channel savings into investment.
 - D) channel investment into savings.
31. Physical capital is purchased through investment spending, which in turn is MOSTLY financed out of:
- A) taxes.
 - B) savings.
 - C) import tariffs.
 - D) consumption expenditure.
32. Capital inflow is:
- A) the net inflow of funds into a country.
 - B) the net outflow of funds from a country.
 - C) the amount by which domestic savings exceeds foreign savings.
 - D) physical capital exported minus physical capital imported.
33. A firm does NOT want to borrow money for a project when the:
- A) interest rate is higher than the rate of return on the project.
 - B) interest rate is lower than the rate of return on the project.
 - C) interest rate is positive.
 - D) rate of return on the project is positive.
34. An expectation that perceived business opportunities will increase will generally cause a(n) _____ for loanable funds.
- A) shift to the left in the demand curve
 - B) movement along the demand curve
 - C) increase in the demand
 - D) decrease in the demand
35. Samantha asks her employer for a 5% raise for the coming year. If the inflation rate during the next year is 5.5%, then her real wage will:
- A) increase by 5%.
 - B) decrease by 0.5%.
 - C) decrease by 5%.
 - D) increase by 0.5%.

36. Which item qualifies as an asset from the viewpoint of a household?
- A) a house
 - B) a mortgage
 - C) credit card debt
 - D) a car loan
37. A loan is a:
- A) liability for the lender and an asset for the borrower.
 - B) physical asset that is traded in financial markets.
 - C) claim on a bank that obliges the bank to provide funds to a lender.
 - D) liability for the borrower and an asset for the lender.
38. Which index is NOT one that is associated with the stock market?
- A) the Dow Jones Industrial Average
 - B) the producer price index
 - C) S&P/TSX Composite Index
 - D) the NASDAQ
39. A random walk is:
- A) the unpredictable movement over time of a variable.
 - B) the predicted fluctuations of a known variable.
 - C) the movement of GDP growth per capita in the long run.
 - D) a description of the economic fluctuations in the short run.
40. Between 2000 and 2006, there was a housing bubble in the United States. A bubble is:
- A) a fluctuation in asset prices that leads to inherent instability.
 - B) an increase in asset prices driven by unrealistic expectations about future prices.
 - C) individuals reselling assets rapidly to make quick profit.
 - D) speculation by unscrupulous investors.
41. The marginal propensity to consume equals the:
- A) proportion of consumer spending as a function of aggregate disposable income.
 - B) change in savings divided by the change in aggregate disposable income.
 - C) ratio of the change in consumer spending to the change in aggregate disposable income.
 - D) change in savings divided by the change in consumer spending.

42. Assuming no taxes and no trade, the multiplier equals:
- A) MPC / MPS .
 - B) $1 / (1 - MPS)$.
 - C) $MPC + MPS$.
 - D) $1 / (1 - MPC)$.
43. In a simple, closed economy (no government or foreign sector), if disposable income increases by \$100 and \$70 is consumed, _____ is saved.
- A) \$30
 - B) \$70
 - C) \$100
 - D) \$170
44. You and a coworker have been trying to develop a linear equation that describes the local household consumption function. Your coworker has sent you a very short email that simply says he has finished the project and the consumption function is $C = 100 + 0.75(YD)$. Your job is to explain this result to your supervisor. According to this consumption function, how much consumption spending would occur if a household had disposable income of \$1 000?
- A) \$750
 - B) \$4 000
 - C) \$850
 - D) \$350
45. The MOST important determinant of consumer spending is:
- A) the government budget deficit or surplus.
 - B) the price of gasoline.
 - C) the trade deficit.
 - D) disposable income.
46. If a firm pays for investment spending out of retained earnings:
- A) the interest rate is irrelevant.
 - B) past profits are adjusted downwards.
 - C) current profits are adjusted downwards.
 - D) the firm forgoes interest it could have received.
47. The initial impact of an unexpected decrease in consumer spending will be a change in:
- A) planned investment spending.
 - B) unplanned investment spending.
 - C) both planned and unplanned investment spending.
 - D) neither planned nor unplanned investment spending.

48. When the economy is in income–expenditure equilibrium:
- A) exports equal imports.
 - B) savings is less than investment spending.
 - C) taxes equal transfer payments.
 - D) real GDP equals planned aggregate expenditure.
49. Real GDP is \$8 000, autonomous consumption is \$500, and planned investment spending is \$200. The marginal propensity to consume is 0.8. What is the consumption function?
- A) $C = 8\,000 + 0.8 * YD$
 - B) $C = 8\,700 + 0.2 * YD$
 - C) $C = 500 + 0.8 * YD$
 - D) $C = 1\,700 + 0.2 * YD$
50. If planned aggregate expenditure rises by \$25 billion and the marginal propensity to consume is 0.8, then equilibrium real GDP changes by:
- A) \$25 billion.
 - B) \$125 billion.
 - C) \$200 billion.
 - D) \$250 billion.