1) The Labour Force Survey Release in January 2020 for December 2019 was presented by Statistics Canada with the following headline and the information below

Labour Force Survey, December 2019

Employment increased by 35,000 (+0.2%) in December

Variable	Number
Population	30,932,800
Employment	19,092,200
Unemployment	1,194,300

The unemployment rate in December 2019

A) was 5.9%

B) was 6.3%

C) fell as employment increased

D) rose as population increased

E) was 3.9%

Answer A

2) Consider short-run fluctuations in real GDP around its trend value. We can say that such fluctuations are
A) generally ignored by economists, because these fluctuations do not affect behaviour of other variables such as the unemployment rate.
B) generally ignored by economists, because these fluctuations are constant and predictable.
C) referred to in economics as "background noise."
D) referred to in economics as "the business cycle."
E) unimportant to the study of macroeconomics.
Answer: D

3) Consider the following simple macro model with a constant price level and demand-determined output: $C = 150 + 0.9Y_d$, $Y_d = 0.8Y$, $I = 400$, $G = 700$, $T = (0.2)Y$, $X = 130$, $IM = (0.08)Y$. Equilibrium national income is

A) 1380.00.
B) 1916.67.
C) 2156.25.
D) 3833.33.
E) 4928.57.
Answer: D

4) In an open economy with government and demand-determined output, a decrease in the equilibrium level of national income could be caused by
A) a decrease in taxes at all levels of income.
B) a decrease in the desired level of imports at all levels of income.
C) an increase in desired consumption at all levels of income.
D) an increase in the desired level of saving at all levels of income.
E) an increase in government purchases.
Answer: D

5) Suppose aggregate output is demand determined. If the marginal propensity to spend is 0.5, and the *MPC* is 0.7, a $1 billion reduction in government purchases will cause equilibrium national income to _____ by _____.
A) decrease; $3.33 billion
B) decrease; $2.00 billion
C) decrease; $1.50 billion
D) increase; $2.00 billion
E) increase; $3.33 billion
Answer: B

6) *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)
2012	402	404	7.1
2013	408	411	7.2
2014	415	415	6.3
2015	420	418	5.9
2016	422	420	6.0
2017	420	423	7.0
2018	425	425	6.3

TABLE 19-1

Refer to Table 19-1. In which years was this economy experiencing an inflationary gap?
A) 2015, 2016
B) 2012, 2013
C) 2016, 2017
D) 2014, 2018
E) 2012, 2013, 2017
Answer: A

7) Consider a small economy with real GDP of $1 billion and the total number of hours worked equal to 5 million. There are 125,000 employees in this economy. Which of the following is the best measure of labour productivity in this economy?

A) real GDP per hour worked = $20
B) real GDP per employed worker = $80,000
C) real GDP per hour worked = $200
D) real GDP per employed worker = $800
E) Not able to determine from the information provided
Answer: C

8) In Ontario in 2020, there are very controversial negotiations between the Ontario Secondary School Teacher's Federation and all other teacher unions and the government about pay increases for teachers.

The government has offered a one percentage point increase in pay. The teachers propose that their money (nominal) wage increase at the same percentage rate as the Consumer Price Index.

Choose the correct statement

A) If the Consumer Price Index rose from 134 to 135 over 2020, the wage increase would be the same under the teachers' proposal and the government's offer

B) If inflation were 2% in 2020, the teachers' proposal would reduce the real wage of teachers

C) If nominal GDP rose by 5% in 2020 and real GDP rose by 3%, the wage increase would be the same under the teachers' proposal and the government offer

D) The teachers' proposal is fair since their real wages would remain constant and that is the usual wage settlement for most Canadian workers in most years.

E) Under the teachers' proposal, their real wage would continue to rise since the percentage increase in the Consumer Price Index and the percentage increase in their wage is the same

Answer: NO CORRECT ANSWER

9) Suppose a price index for a certain basket of goods and services has a value of 150 in 2018 and a value of 156 in 2019. This index suggests that the cost of the market basket of goods and services
A) was 4% higher in 2019 than in 2018.
B) was 6% lower in 2019 than in 2018.
C) was 6% higher in 2019 than in 2018.
D) was 156% higher in 2019 than in 2018.
E) was approximately the same in 2019 and 2018.
Answer: A

10) *The table below includes data for a one-year period required to calculate GDP for this economy. All figures are in billions of dollars.*

Wages and salaries	6423
GST remittances	613
Exports	954
Gross investment	1850
Consumption expenditure	5107
Depreciation	425
Government subsidies to firms	125
Business profits	1256
Imports	982
Interest and investment income	652
Government purchases	2315

TABLE 20-3

Refer to Table 20-3. What is the value of GDP (in billions of dollars), as calculated from the expenditure side?
A) $12 134
B) $11 482
C) $11 208
D) $10 605
E) $9244
Answer: E

11) Which of the following is the best example of cyclical unemployment?
A) A worker is laid off because his firm had to reduce production due to reduced demand.
B) A worker quits her current job to search for a better one.
C) An ironworker cannot find a job in Alberta because all job vacancies are in Quebec.
D) Bank tellers are unable to find jobs due to technological advances in the banking system.
E) Inflationary pressures have led to higher wages for all jobs.
Answer: A

12) An announcement from Statistics Canada said

Consumer Price Index: Annual review, 2019

In 2019, the annual average increase in the Consumer Price Index (CPI) was 1.9%, following average gains of 2.3% in 2018 and 1.6% in 2017. Excluding gasoline, the annual average CPI rose 2.3% in 2019, the largest increase since 2003.

The missing value of the CPI in 2018 is

Year	Consumer Price Index (CPI)
2017	130.4
2018	
2019	136.0

A) 132.0
B) 132.9
C) 133.2
D) 133.4
E) 134.1

Answer: D

13) Assume that Sarah agrees to lend $100 to Sam for one year. Sam agrees to pay Sarah $110 at the end of the year. If inflation over that one year is 7%, what real rate of interest does Sarah earn on her $100?
A) 10%
B) 7%
C) 3%
D) 13%
E) 17%
Answer: C

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

2018	Price	Quantity
Good A	$1.00	100 units
Good B	$2.00	200 units
Good C	$5.00	100 units
2019	**Price**	**Quantity**
Good A	$2.00	120 units
Good B	$3.00	200 units
Good C	$10.00	98 units

TABLE 20-5

Refer to Table 20-5. Assume the output of all three goods is consumed in the country, and there are no imported goods and services. If 2018 is used as the base year, then the consumer price index (*CPI*) in 2019 was approximately
A) 102.
B) 180.
C) 179.
D) 193.
E) 418.
Answer: B

15) Economic theory argues that there will be fewer real effects from inflation as long as the
A) actual rate of inflation is less than 5%.
B) anticipated rate of inflation is more than the actual rate of inflation.
C) anticipated rate of inflation is less than the actual rate of inflation.
D) inflation is fully anticipated.
E) whole private sector is unaware that it is happening.
Answer: D

16) The exchange rate between China and the United States between 2015 and 2020 is illustrated in the graph below. This is often considered the most important exchange rate in the world. The vertical axis is the number of Chinese yuan per US dollar.

The horizontal axis is in months and years - 07 denotes the month of July and 01 denotes the month of January
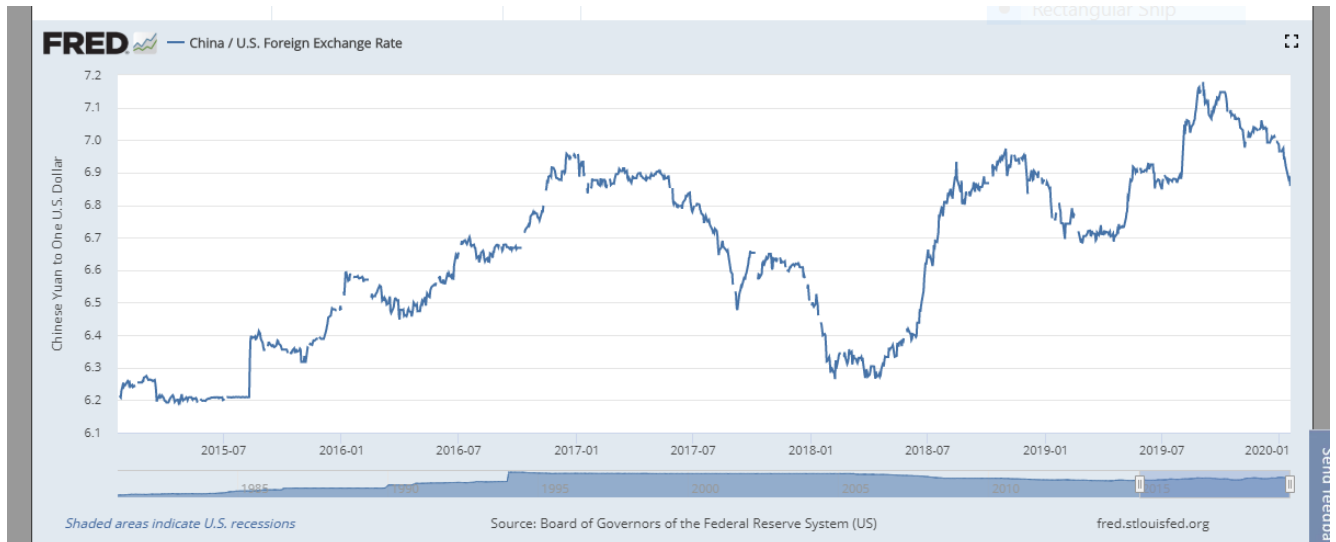
Choose the correct statement

A) The yuan depreciated from July 2015 to January 2017 and depreciated from January 2017 to January 2018.

B) The yuan depreciated from January 2018 to January 2020

C) The US dollar depreciated from January 2018 to January 2020

D) The yuan appreciated from July 2015 to January 2017 and appreciated from January 2017 to January 2018.

E) The US dollar depreciated between 2015 and 2020

17) Suppose a Canadian firm imports $5000 worth of frisbees from China and sells them for $10 000. The effect on GDP would be

A) to decrease the value of GDP by $15 000.
B) to increase the value of GDP by $15 000.
C) to increase the value of GDP by $10 000.
D) to increase the value of GDP by $5000.
E) No effect on GDP since the frisbees were produced outside of Canada.
Answer: D

18)   You are told that a macroeconomic variable in 2019 had a value of 6%. It is most likely that for Canada this value represents:

   A) The inflation rate
   B) The growth rate of real GDP
   C) The nominal interest rate on a 10 year government of Canada bond
   D) The unemployment rate
   E) The output gap

Answer D

19) Why are transfer payments excluded from the government component (G_a) in the calculation of GDP?
A) Because they do not represent the purchase of a good or a service.
B) Because they are not counted as income by any economic agent.
C) Because they do not generate additional real output in the economy.
D) Because it is difficult to assess the market value of a transfer payment.
E) Because they are small enough to ignore when computing the national accounts.
Answer: A

20)   Use the Figure below for Question 20

Per capita GDP and Subjective Well-being
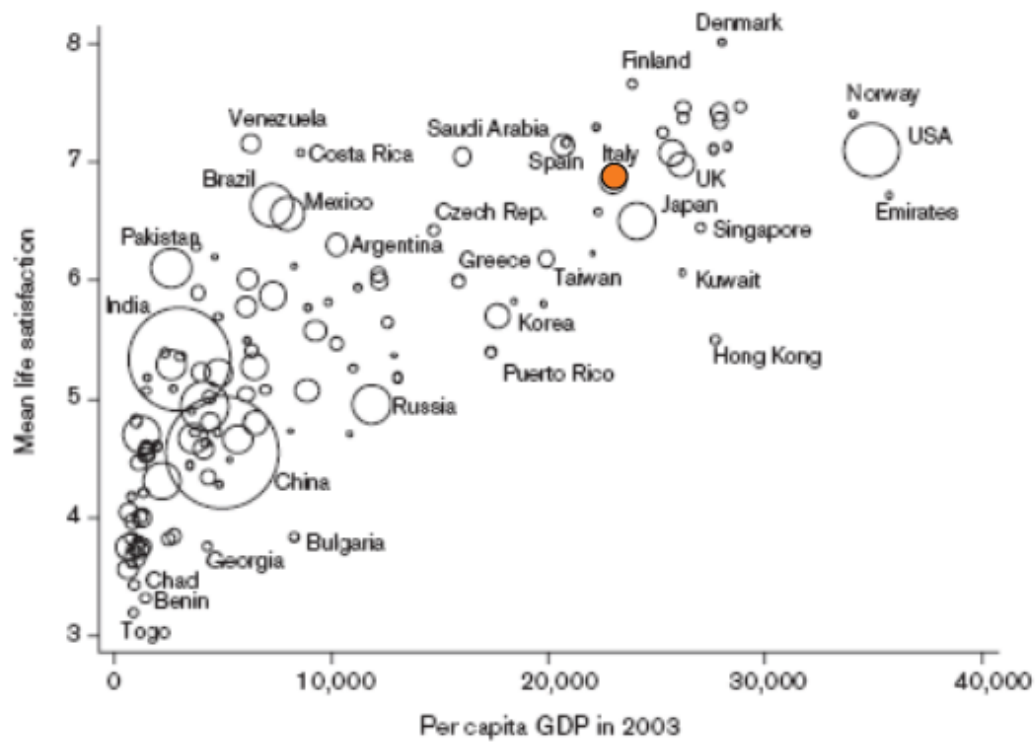
Source: Penn World Tables 6.2.   Deaton (2008)

The information that is conveyed in the Figure above is best described as showing

A) Per capita (per person) real GDP is not a useful measure of well-being
B) Per capita (per person) real GDP is very similar at different levels of well-being
C) At the same level of per capita (per person) GDP subjective measures of well-being can be very different
D) Leisure is an important part of subjective well-being that is left out of the calculation of real GDP per capita (per person).
E) The size of the circles are in proportion to the country's population. Thus larger countries have higher levels of well-being and higher levels of per capita GDP
Answer: C

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

2018	Price	Quantity
Good A	$1.00	100 units
Good B	$2.00	200 units
Good C	$5.00	100 units
2019	**Price**	**Quantity**
Good A	$2.00	120 units
Good B	$3.00	200 units
Good C	$10.00	98 units

TABLE 20-5

Refer to Table 20-5. If 2018 is the base year, the GDP deflator in 2018 was
A) 100.
B) 102.
C) 180.
D) 193.
E) 1000.
Answer: A

22) Consider the simplest macro model with demand-determined output, where AE = C + I. Suppose actual national income is $900 billion and desired consumption plus desired investment is $890 billion. We can expect that
A) firms will see a decrease in inventories, and they will respond by increasing output, thereby increasing actual national income.
B) firms will decrease autonomous investment by $10 billion until equilibrium national income is reached at $890 billion.
C) firms will increase autonomous investment by $10 billion until equilibrium national income is reached at $900 billion.
D) actual national income will increase until equilibrium national income is reached at $900 billion.
E) firms will see an increase in inventories, and they will respond by decreasing output, thereby decreasing actual national income.
Answer: E

23) In the simple macroeconomic model, what are "autonomous expenditures"?
A) expenditures that are dependent on national income
B) expenditures that are not dependent on national income
C) induced expenditures
D) expenditures that are constant
E) non-domestic expenditures
Answer: B

24) The simple multiplier applies to short-run situations in which the price level is constant. The simple multiplier can be defined as
A) national income divided by aggregate expenditure.
B) the change in equilibrium national income divided by the initial change in autonomous expenditure that brought it about.
C) the change in national income resulting from a change in expenditure, multiplied by the number of years since the initial change.
D) a change in aggregate expenditures multiplied by the equilibrium level of national income.
E) the change in national income resulting from a change in saving.
Answer: B

25) Suppose there is a decrease in the marginal propensity to spend out of national income. The result will be
A) a movement to the right along the *AE* curve.
B) a movement to the left along the *AE* curve.
C) an increase in the slope of the *AE* curve, which rotates it upward.
D) a decrease in the slope of the *AE* curve, which rotates it downward.
E) a parallel downward shift in the *AE* curve.
Answer: D

26)
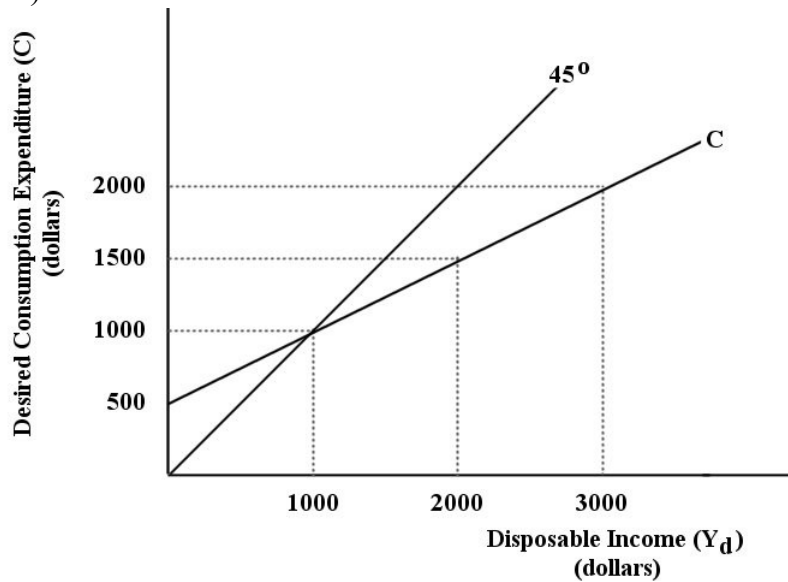
FIGURE 21-2

Refer to Figure 21-2. The slope of the consumption function in the figure is equal to
A) 1.0.
B) 0.67.
C) 0.5.
D) -0.5.
E) -1.0.
Answer: C

27) 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.
Answer: C

28)
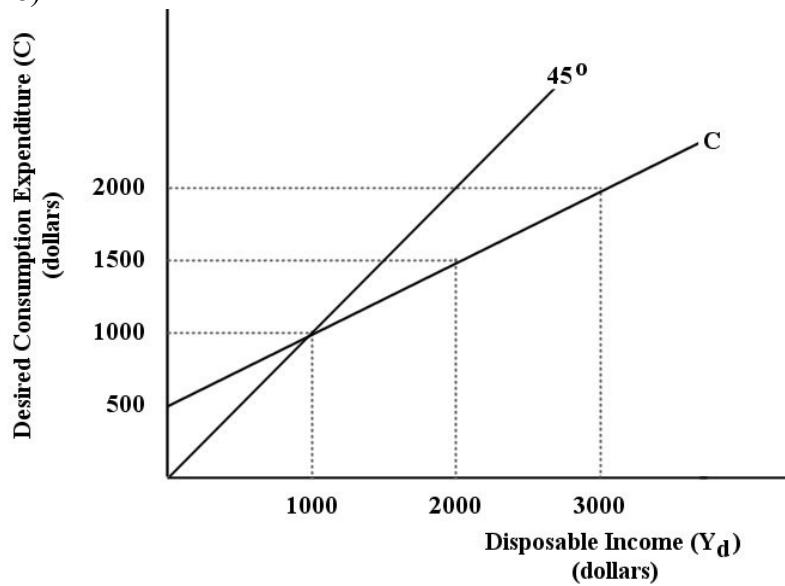
FIGURE 21-2

Refer to Figure 21-2. If disposable income is $3000, desired consumption expenditure is equal to
A) $0.
B) $500.
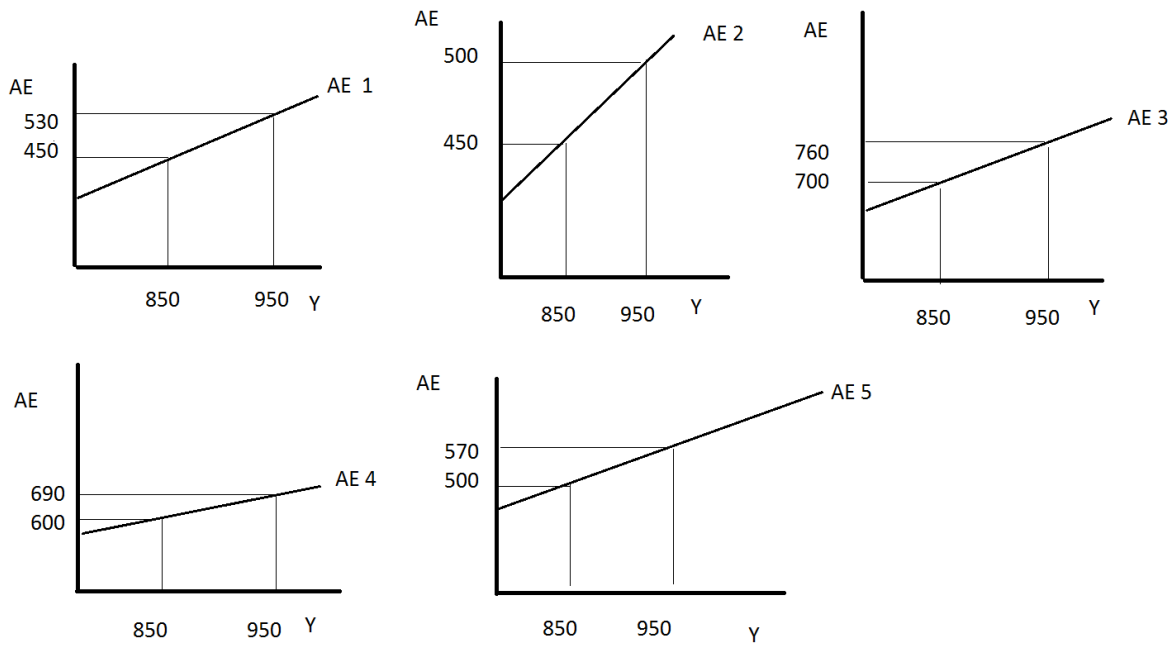C) $1000.
D) $1500.
E) $2000.
Answer: E

29) Suppose the price level is constant, output is demand-determined, and the economy is closed with no government. If the marginal propensity to spend is 0.7, the simple multiplier is
A) 0.33.
B) 0.70.
C) 1.00.
D) 1.42.
E) 3.33.
Answer: E

30)

Identify the Aggregate Expenditure line from the figures below that describes the economy with the largest multiplier

A) AE 1
B) AE 2
C) AE 3
D) AE 4
E) AE 5

Correct answer D

31) *The table below shows disposable income and desired consumption for a closed economy with no government.*

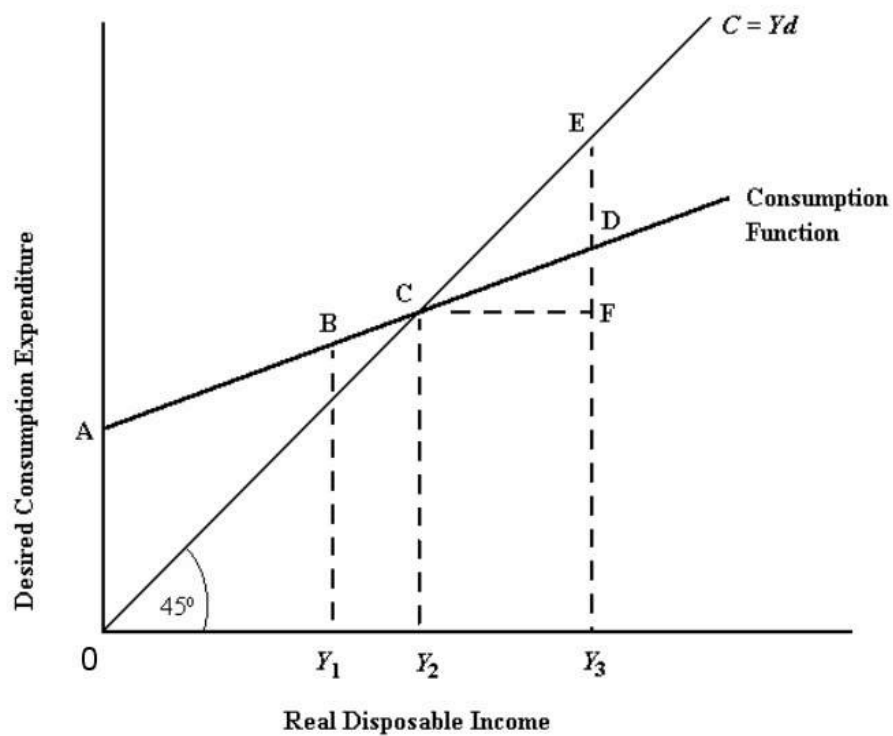| Disposable Income	Desired Consumption
0	10
50	30
150	70
300	130

TABLE 21-1

Refer to Table 21-1. The marginal propensity to consume is equal to
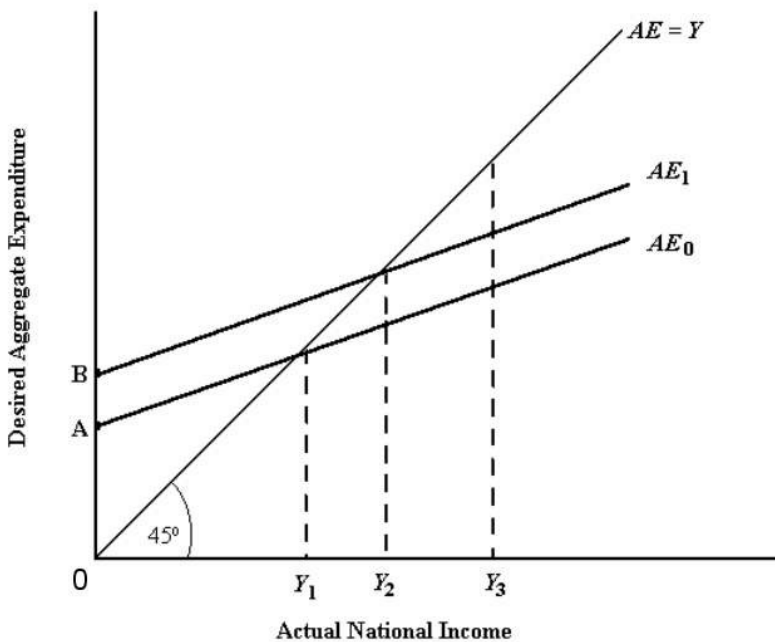A) 0.8.
B) 0.67.
C) 0.6.
D) 0.4.
E) 0.2.
Answer: D

32)

FIGURE 21-1

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.
Answer: A

33)

FIGURE 21-3

Refer to Figure 21-3. If national income is Y_1 and the aggregate expenditure function is AE_1, then desired aggregate expenditure
A) exceeds income and income will rise.
B) exceeds income and income will fall.
C) is less than income and income will rise.
D) is equal to income and income will not change.
E) is less than income and income will fall.
Answer: A

34) Which of the following can cause a parallel upward shift in the net export (NX) function?
A) an increase in domestic national income
B) an increase in foreign national income
C) an increase in domestic prices relative to foreign prices
D) a decrease in the Canadian-dollar price of foreign currency
E) a decrease in foreign prices relative to domestic prices
Answer: B

35) *Consider the following information describing a closed economy with no government and where aggregate output is demand determined. All dollar figures are in billions.*

1. the equilibrium condition is $Y = C + I$
2. the marginal propensity to consume is 0.90
3. the autonomous part of C is $300
4. investment is autonomous and is $100

TABLE 21-3

Refer to Table 21-3. Suppose this economy is in equilibrium. There is then a significant decline in house prices across the country. The likely effect is
A) autonomous consumption will rise above $300 billion and equilibrium national income will therefore rise.
B) autonomous saving will fall and equilibrium national income will therefore fall.
C) autonomous saving will rise and equilibrium national income will therefore rise.
D) autonomous investment will rise and equilibrium national income will therefore rise.
E) autonomous consumption will fall below $300 billion and equilibrium national income will therefore fall.
Answer: E

36) A movement along the net export (NX) function can be caused by a change in
A) domestic national income.
B) foreign national income.
C) domestic prices.
D) the exchange rate.
E) foreign prices.
Answer: A

37) A fall in the Canadian-dollar price of foreign currency, other things being equal, causes Canada's net export (NX) function to shift _____ and _____.
A) upward; become flatter
B) upward; become steeper
C) downward; become flatter
D) downward; keep the same slope
E) downward; become steeper
Answer: E

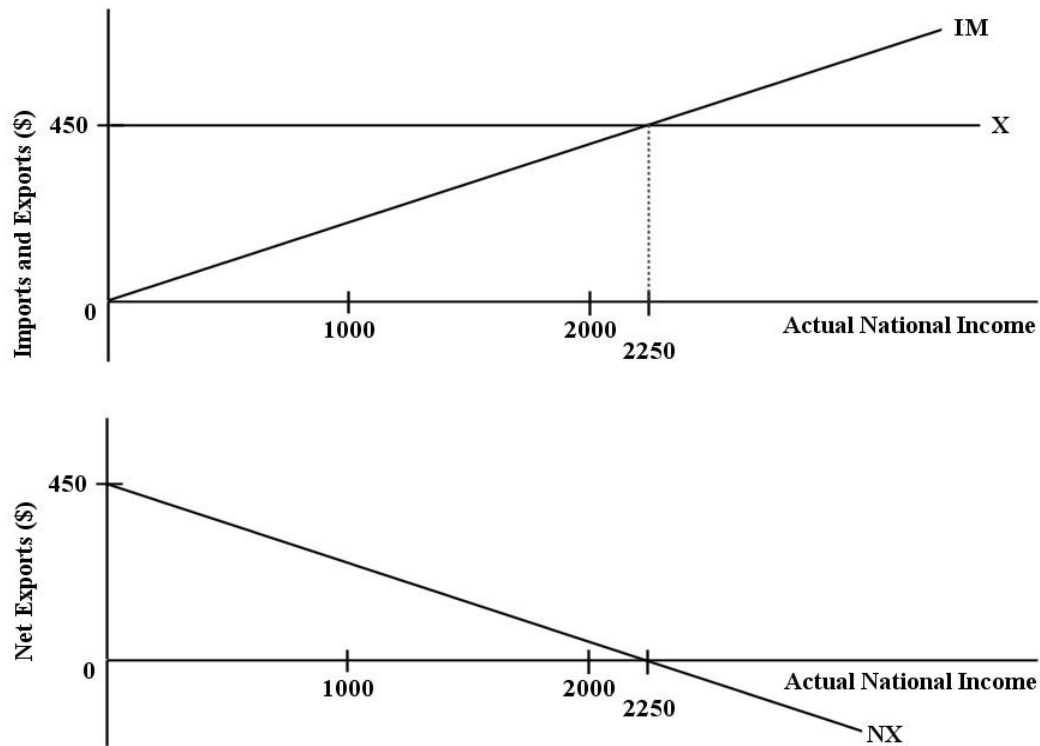38) *The diagrams below show the import, export, and net export functions for an economy.*

FIGURE 22-1

Refer to Figure 22-1. The net export function for this economy can be expressed as
A) NX = 2250 - 450(Y).
B) NX = 450 - 0.2(Y).
C) NX = 2250 - 450.
D) NX = 0.2Y.
E) NX = 2250 - .2(IM).
Answer: B

39) *The table below shows national income and imports. The level of exports is fixed at $300. All figures in the table and in the questions are in millions of dollars.*

Income (Y)	Imports (IM)	Net Exports (NX)
2000	150	a
3000	250	b
4000	350	c
5000	450	d

TABLE 22-1

Refer to Table 22-1. What is the marginal propensity to import?
A) 0.01
B) 0.10
C) 1.0
D) 10.0
E) not enough data to determine
Answer: B

40) The AE function for an open economy with government can be written as
A) $AE = C + I - G + (X - IM)$.
B) $AE = C + I + G - (X - IM)$.
C) $AE = C + I - G - (X + IM)$.
D) $AE = C + I + S + (X + IM)$.
E) $AE = C + I + G + (X - IM)$.
Answer: E

41) Consider a consumption function in a simple macro model with government and taxes. Given a marginal propensity to consume out of disposable income of 0.8 and a net tax rate of 20% of national income, the marginal propensity to consume out of national income is
A) 0.36.
B) 0.64.
C) 0.80.
D) 0.90.
E) 1.00.
Answer: B

42) Consider a simple macro model with a constant price level and demand-determined output. The equations of the model are: $C = 120 + 0.86Y$, $I = 300$, $G = 520$, $T = 0$, $X = 180$, $IM = 0.12Y$. The vertical intercept of the AE function is
A) 120.0.
B) 420.0.
C) 600.0.
D) 828.8.
E) 1120.0.
Answer: E

43) What is potential or full-employment output?
A) the maximum GDP that an economy actually achieves throughout its entire history
B) the level of output achieved during periods when all of the labour force is employed
C) a target level of income determined by the government
D) the GDP that would be produced if the economy's resources were fully employed at a normal intensity of use
E) the GDP that could be produced if the economy's resources were fully employed at their maximum intensity of use
Answer: D

44) *The diagram below shows desired aggregate expenditure for a hypothetical economy. Assume the following features of this economy:*

- *marginal propensity to consume (mpc) = 0.75*
- *net tax rate (t) = 0.20*
- *no foreign trade*
- *fixed price level*
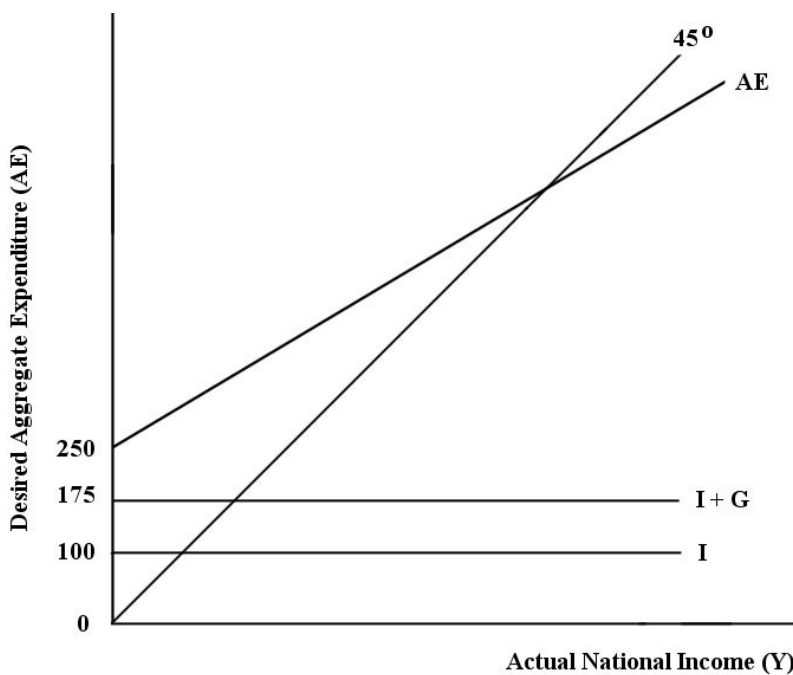- *all expenditure and income figures are in billions of dollars.*

FIGURE 22-2

Refer to Figure 22-2. Which of the following correctly describes the consumption function for this economy?
A) $C = (0.6)Y_D$
B) $Y = 250 + (0.75)Y_D$
C) $C = 75 + (0.75)Y_D$
D) $Y = 250 + (0.75)Y$
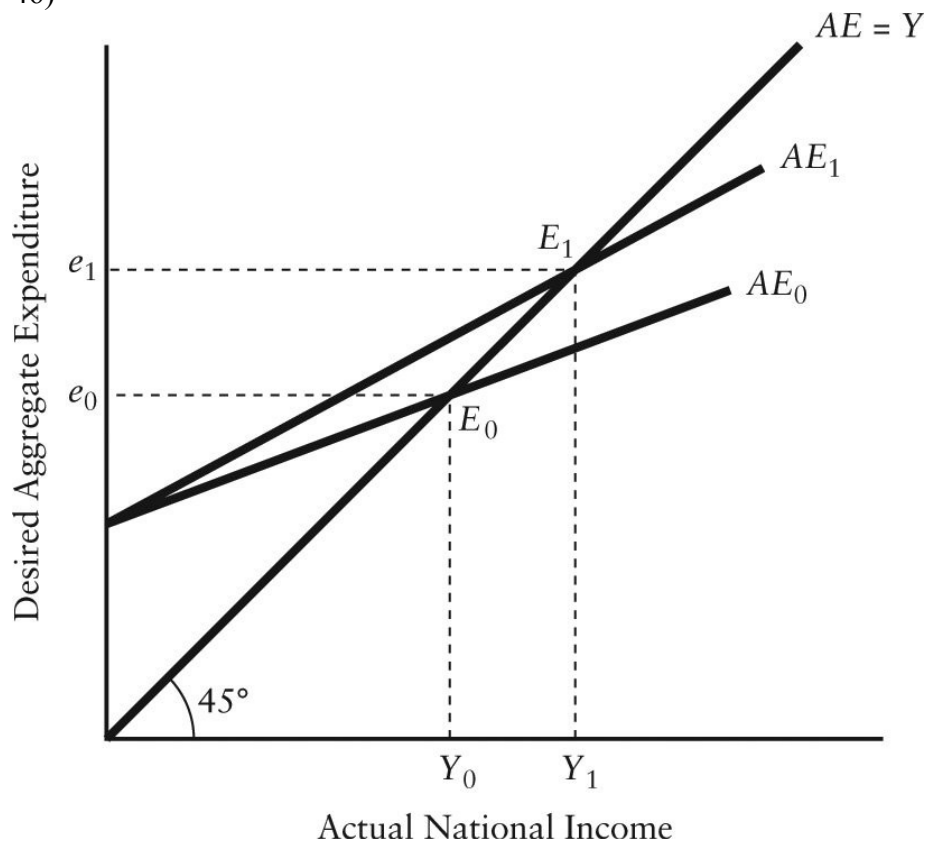E) $C = 250 + (0.6)Y$
Answer: C

45) Which statement is correct?

The notation is the notation in class and in the homework. b is the marginal propensity to consume and z is the marginal propensity to spend.

AE

45 degree line

AE

G+I+X+a	200
G +I +X	175
G +I	120
G	50
	0

800

Y
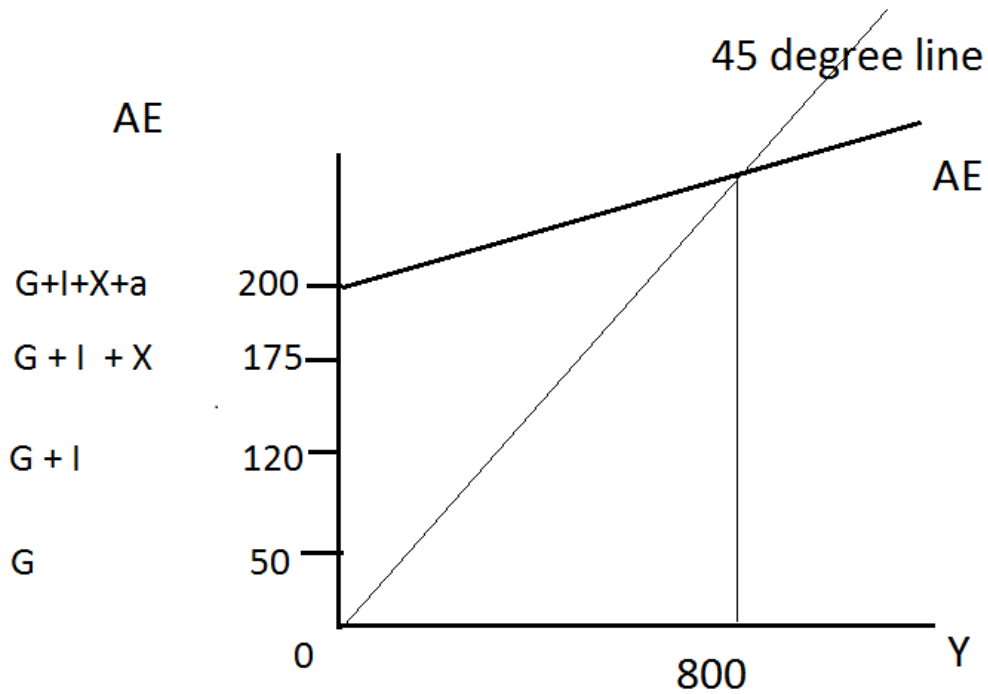
A) I = 75 and z = 0.25

B) X = 55 and z= 0.75

C) G=70 and b = 0.75

D) m = .31 and b= 0.75

E) X = 55 and z = 0.25

Correct answer B

46)

FIGURE 22-4

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 consume out of disposable income.
B) a decrease in the marginal propensity to import.
C) an increase in the marginal propensity to import.
D) a decrease in the net tax rate.
E) a decrease in government purchases.
Answer: C

47)
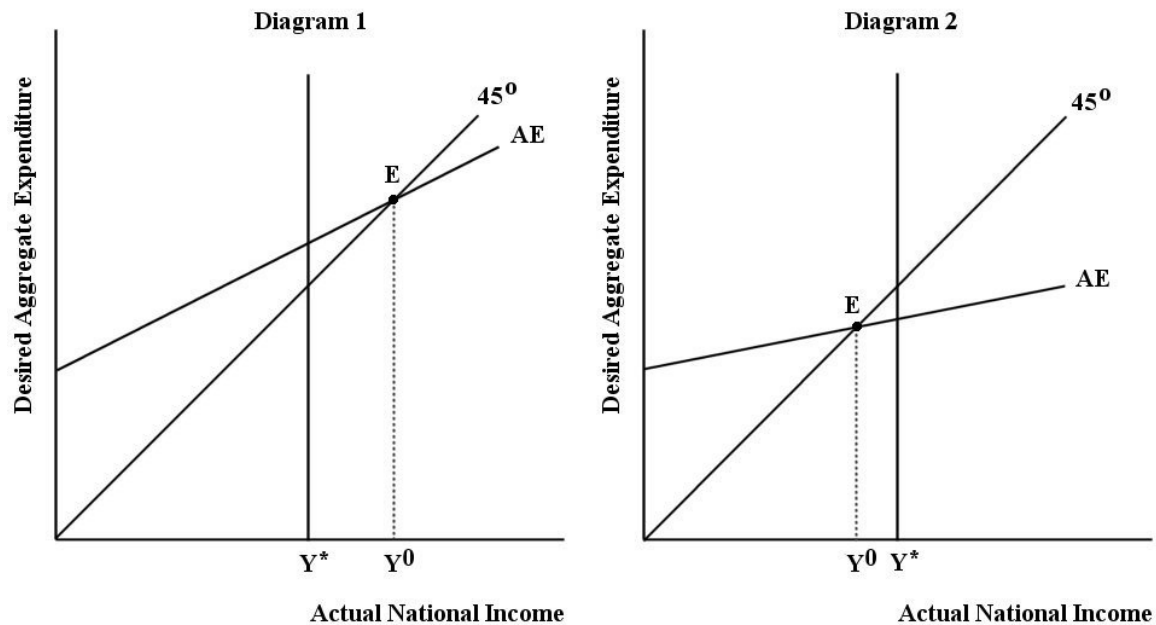
Diagram 1

Diagram 2

FIGURE 22-5

Refer to Figure 22-5. Diagram 2 illustrates an economy that is experiencing a(n) _____ gap. The goal of stabilization policy would be to _____ national income until it is equal to _____.

A) recessionary; increase; actual national income
B) inflationary; reduce; potential GDP
C) inflationary; reduce; actual national income
D) inflationary; increase; potential GDP
E) recessionary; increase; potential GDP
Answer: E

48) The Economist magazine, at the end of each issue, presents a table entitled Economic and Financial Indicators. One such indicator is an interest rate and the other is the last 12-month inflation rate. Both expressed in annual terms. The highest real interest rate is found in

country	Nominal interest rate (%)	Inflation (%)
Canada	1.5	2.2
United States	1.9	2.3
Switzerland	-0.6	0.2
China	2.8	4.5
Peru	4.1	1.9

A) Canada
B) United States
C) Switzerland
D) China
E) Peru

Answer E

49) Which of the following is an accurate statement about real national income?
A) It always equals nominal national income.
B) It changes by the same amount and in the same direction as does nominal national income.
C) It changes only when the underlying quantities of output change.
D) It refers to national income with no adjustment for changes in prices.
E) It refers to national wealth but is not an indicator of current production.
Answer: C

50)

Thanks to a healthy consumer, a record U.S. expansion is here to stay <u>MATT LUNDY</u>

ECONOMICS REPORTER GLOBE PUBLISHED JANUARY 1, 2020

As the financial crisis recedes into distant memory, U.S. household finances are looking better by the year, with the American consumer poised to keep the world's largest economy solidly on course right through the 2020 election. Wealth is hitting record highs, workers are pocketing bigger wage hikes,– all signs that Americans have room to spend.

After reading the paragraph above, you would conclude that in 2020 you would expect

   A. A shift up in the American consumption function
   B. A movement along the American consumption function
   C. Both a shift up in the American consumption function and a movement along the American consumption function
   D. No change in the American consumption function
   E. That a recession in the United States is likely as the expansion phase of the business cycle comes to an end

   Answer C