Correct answers are marked with a *

1) In a macro model with a constant price level, an increase in autonomous desired consumption will cause the *AE* curve to shift
A) downward and the *AD* curve to shift to the left.
B) downward and the *AD* curve to shift to the right.
C) upward and the *AD* curve to shift to the left.
*D) upward and the *AD* curve to shift to the right.
E) upward and a movement to the right along the *AD* curve.

2) Suppose we observe the following changes in the price level in Canada and the United States

Year	1	2	3	4	5
P Canada	100	103	106.1	109.3	112.6
P United States	100	102.0	104.0	106.1	108.2

If in year 1 the exchange rate was 1.25 Canadian dollars per US dollar and in year 5 the exchange rate was 1.20 Canadian dollars per US dollar then

*A) Canadian imports would rise and Canadian exports would fall from year 1 to year 5

B) Canadian imports would rise and Canadian exports would rise from year 1 to year 5

C) Canadian imports would fall and Canadian exports would fall from year 1 to year 5

D) Canadian imports would fall and Canadian exports would rise from year 1 to year 5

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)
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. What is the output gap in 2013?
A) $408 billion
B) $411 billion
C) $7.1 billion
D) $3 billion
*E) -$3 billion

4) Other things being equal, what is the effect of an exogenous fall in the domestic price level?

A) Canadian goods become more expensive relative to foreign goods.
*B) The net export function shifts upward.
C) The aggregate expenditure function shifts downward.
D) Imports of foreign goods rise.
E) The net export function shifts downward.

5)

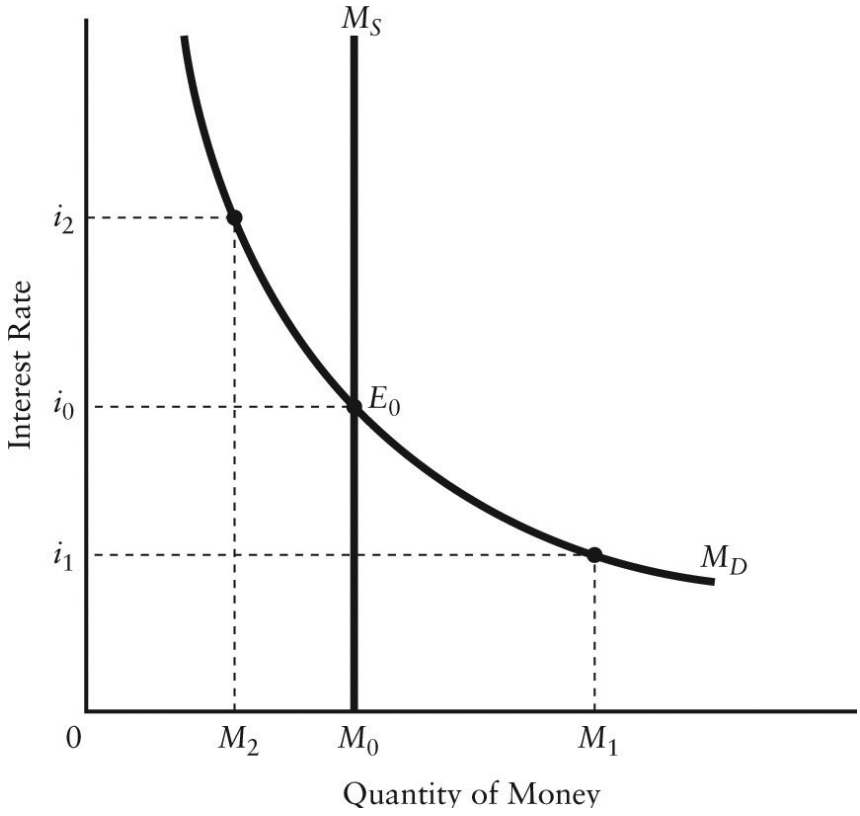

FIGURE 27-2

Refer to Figure 27-2. Starting at equilibrium E_0, an increase in real GDP will lead to a
A) shift of the M_S curve to the left and an increase in the interest rate.
B) shift of the M_S curve to the right and a fall in the interest rate.
C) downward movement along the M_D curve and a lower interest rate.
D) shift of the M_D curve to the left and a fall in the interest rate.
*E) shift of the M_D curve to the right and an increase in the interest rate.

6)

An increase in the world price of oil (or the world price of energy) would, in the short-run model of macroeconomic equilibrium using the Aggregate Supply (AS) and Aggregate Demand (AD) model and applying that model in Canada would most likely

A) Shift AD right (up) and AS right (down)

*B)Shift AD right (up) and AS left (up)

C)Shift AD left (down) and AS right (down)

D)Shift AD left (down) and AS left (up)

7) The "transactions demand" for money arises from the fact that

A) there is uncertainty in the receipts of income.
B) there is uncertainty about the movement of interest rates.
C) households wish to have all their wealth in the form of money.
*D) households want to hold money in order to make purchases of goods and services.
E) households want to keep cash on hand to buy bonds if bond prices drop.

8)

Consider two economies, A and B. Economy A has a marginal propensity to consume of 0.9, a net tax rate of 0.3 and a marginal propensity to import of 0.3. Economy B has a marginal propensity to consume of 0.9, a net tax rate of 0.1 and a marginal propensity to import of 0.3. Suppose there is an increase in autonomous investment of $5 billion in each of these economies. Which of the following statements is true?

A) The *AD* curve shifts farther to the left in Economy B than Economy A.
*B) The *AD* curve shifts farther to the right in Economy B than Economy A.
C) The *AD* curve shifts to the left the same amount in both economies.
D) The *AD* curve shifts to the right the same amount in both economies.
E) The simple multiplier is larger in Economy A.

9) The aggregate supply curve tends to be relatively steep when GDP is above potential output because firms are operating above _____, and _____ are rising rapidly.

A) equilibrium output; unit costs
B) profit-maximizing output; total costs
*C) capacity; unit costs
D) equilibrium output; total costs
E) equilibrium output; average costs

10) Consider the following news headline: "Governments plan massive hospital construction programs across the country." Choose the statement below that best describes the likely macroeconomic effects.

A) The *AD* curve shifts to the left; the price level falls and real GDP falls.
*B) The *AD* curve shifts to the right; the price level rises and real GDP rises.
C) The *AD* curve shifts to the right and the *AS* curve shifts to the left; the price level rises and the effect on real GDP is indeterminate.
D) The *AD* curve shifts to the left and the *AS* curve shifts to the right; the price level falls and the effect on real GDP is indeterminate.
E) The *AD* and *AS* curves both shift to the right; the effect on the price level is indeterminate and real GDP rises.

11)

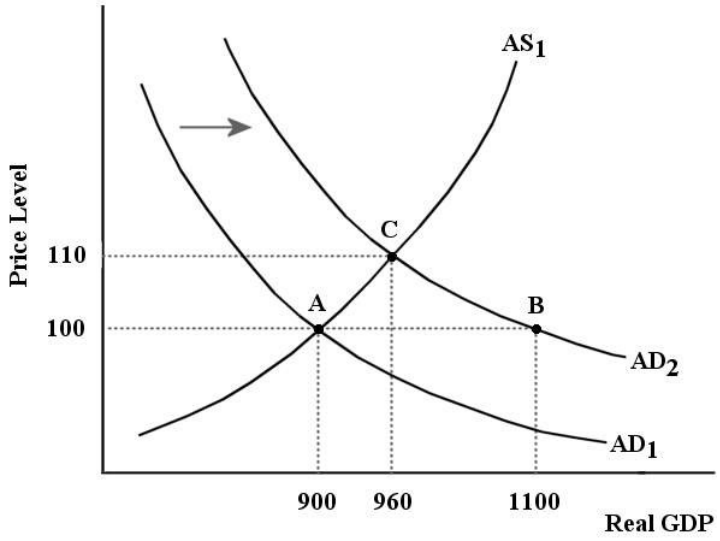

FIGURE 23-5

Refer to Figure 23-5. Suppose that an increase in government purchases by 50 units causes the *AD* curve to shift to the right, as shown. The simple multiplier is _____ and the multiplier is _____.
A) 6; 1.2
B) 2.8; 1.2
*C) 4; 1.2
D) 4; 2.8
E) 4; 3.2

12)

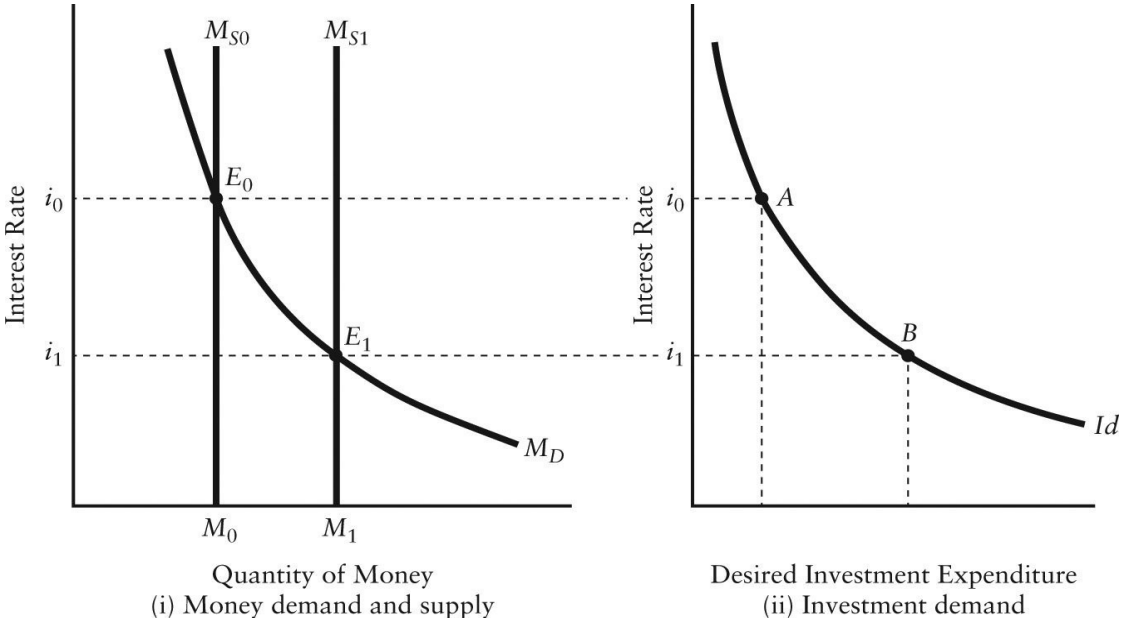

FIGURE 27-3

Bank of Canada cuts rates as coronavirus virus delivers 'negative shock'

BILL CURRY OTTAWA MARCH 4, 2020

The action taken by the Bank of Canada on March 4, 2020 can be thought of as shifting the monetary equilibrium from E_0 to E_1. The result desired by the Bank of Canada is

*A) a decrease in the interest rate and an increase in desired investment.
B) an increase in the interest rate and a decrease in desired investment.
C) sustained monetary disequilibrium.
D) a shift of the investment demand curve to the right.
E) a shift of the investment demand curve to the left.

13) Consider a simple macro model with demand-determined output. Which of the following parameters will produce the most stable real GDP in the face of autonomous expenditure shocks?

A) $MPC = 0.8$, $t = 0.2$, $m = 0.3$
B) $MPC = 0.7$, $t = 0.3$, $m = 0.2$
*C) $MPC = 0.7$, $t = 0.1$, $m = 0.4$
D) $MPC = 0.9$, $t = 0.2$, $m = 0.4$
E) $MPC = 0.8$, $t = 0.1$, $m = 0.2$

14) Suppose a country has an unemployment rate of 20%. If we know the population is 38 million and the labour force is 25 million, then the number of people unemployed must be

*A) 5 million.
B) 13 million.
C) 20 million.
D) 7.6 million.
E) 2.6 million.

Answer: A

15) If the annual market rate of interest is 5%, an asset that promises to pay $100 after each of the next two years has a present value of

A) $90.70.
B) $95.24.
C) $181.40.
*D) $185.94.
E) $200.00.

16)

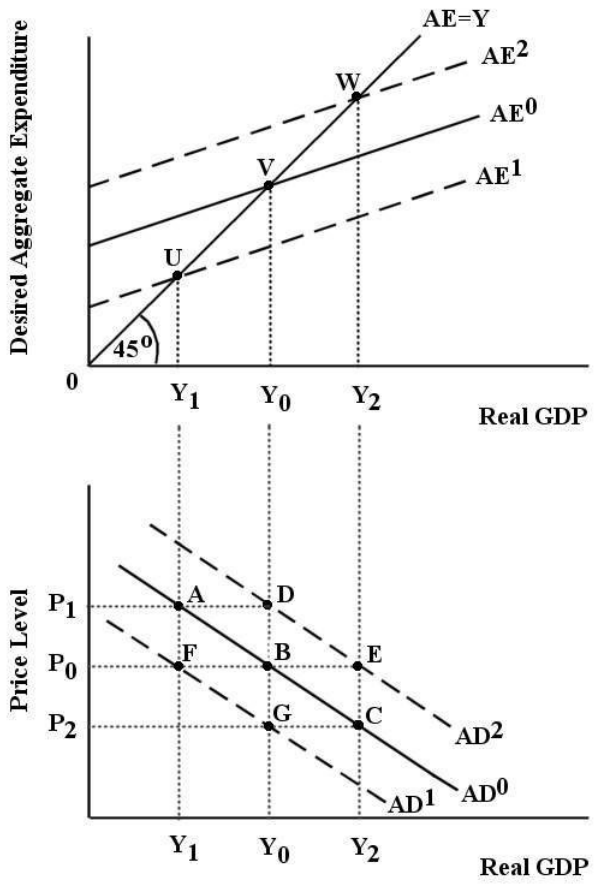

FIGURE 23-1
Refer to Figure 23-1. Assume the economy is initially in equilibrium with desired aggregate expenditure equal to real GDP at point V. The price level is P_0. Other things being equal, exogenous changes in the price level will cause

A) movement along the aggregate expenditure curve AE^0 and shifts of the *AD* curve.
B) movement along the aggregate expenditure curve AE^0 and movement along the aggregate demand curve AD^0.
C) shifts of the *AE* curve and shifts of the *AD* curve.
*D) shifts of the *AE* curve and movement along the aggregate demand curve AD^0.
E) no change in either the *AE* curve or the *AD* curve.

17) Consider the data in the table below

Year	Consumer Price Index	Price of Oil per barrel	The average money wage
ONE	160	$50.00	$20.00
TWO	176	$30.00	$22.00

From Year ONE to Year TWO, which if the cases below most accurately describe the data above.

A) There was an oil price shock or supply shock that shifted the AS curve up or left
B) Real wages rose
C) Real wages fell
D) Money wages fell

*E) Inflation was 10 percent

18) Which of the following explains why we assume that the economy's aggregate supply (AS) curve has a positive slope?
A) Inputs become more expensive at higher levels of output.
B) Inputs become less expensive at higher levels of output.
*C) Firms' unit costs rise as output increases.
D) Firms' unit costs fall as output increases.
E) Aggregate demand increases at higher levels of national income.

19) Consider the aggregate production function Y = F(K, L). If the inputs K and L are increased by 5% each and total output (Y) increases by 5% as a result, then this production function is displaying

A) increasing returns to scale.
*B) constant returns to scale.
C) decreasing returns to scale.
D) diminishing marginal returns.
E) a change in technology.

20) If the annual market interest rate is 20%, the annual opportunity cost of having $50 cash in your pocket is

A) $0.
B) $2.
*C) $10.
D) $50.
E) $1000.

21)

Table 5

Year		**CPI**
2016		207
2017		215

Refer to Table 5. Consider the above values of the consumer price index for 2016 and 2017. The inflation rate for 2017 was equal to

A) 215 percent.
B) 21.5 percent.
C) 8.0 percent.
*D) 3.9 percent.
E) 2.5 percent.

22) *The table below shows aggregate values for a hypothetical economy. Suppose this economy has real GDP equal to potential output.*

Potential GDP	$2800
Net tax revenues	$50
Government purchases	$200
Investment	$250
Consumption	$2350

TABLE 25-2

Refer to Table 25-2. What is the level of national saving for this economy?
A) -$200
B) -$150
C) -$50
D) $150
*E) $250

23) In the Neoclassical growth model, whenever diminishing returns applies, increases in the population, other things being equal, are accompanied by

A) decreasing GDP and falling living standards.
B) decreasing GDP and increasing living standards.
*C) increasing GDP and falling living standards.
D) increasing GDP and constant living standards.
E) increasing GDP and increasing living standards.

24) *The diagram below shows the market for financial capital in a closed economy assuming that national income is constant at potential GDP, Y*.*

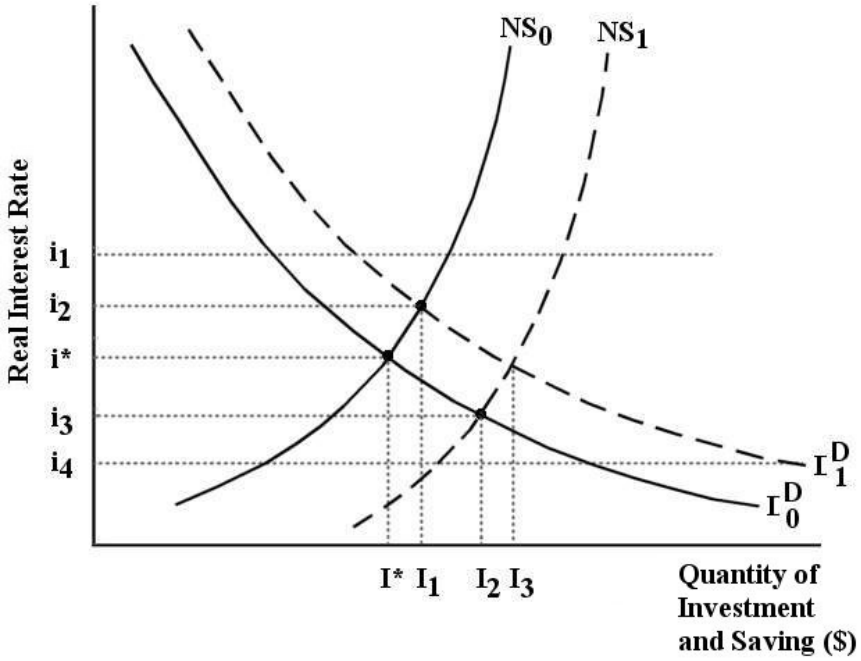

FIGURE 25-2

Refer to Figure 25-2. Suppose national saving is reflected by NS_0 and investment demand is reflected by I_0^D. Now suppose the government implements a change in taxes that encourages investment but leaves the overall deficit unchanged. What is the effect on the real interest rate?

A) There is no effect on NS or I^D, and the interest rate remains at i^*.
B) National saving shifts to NS_1, and the real interest rate falls to i_3.
C) The real interest rate rises because of the decrease in the budget surplus.
D) The real interest rate falls because of the decrease in the budget surplus.
*E) Investment demand shifts to I_1^D, and the real interest rate rises to i_2.

25)

The anti-tax delusions of Donald Trump and Andrew Scheer

Lawrence Martin, Globe and Mail, November 18, 2019

Did Andrew Scheer really say that?

At the Conservative Leader's Wednesday scrum, while referencing policies to deal with the climate crisis, he claimed, "I've never known a problem to be solved by a new tax."

Oh well. What at least can be said is that the Canadian Conservative Leader's obtuse take on taxes hardly matches the madness of his conservative brethren in the United States.

Having brought in one sweeping tax cut (favouring mainly the wealthy) that has thoroughly depleted his treasury, U.S. President Donald Trump is now talking of another one before election day in 2020. He's already racked up a trillion-dollar annual deficit. Does he want to double it?

In the model of the market for financial capital used in Chapter 25, the last paragraph about Donald Trump's fiscal policy describes

A) An increase in savings at the same rate of interest
*B) decrease in savings at the same rate of interest
C)An increase in investment at the same rate of interest
D) decrease in investment at the same rate of interest
E) None of the above