

Name: _____

Student #: _____

QUEEN'S UNIVERSITY AT KINGSTON

FACULTY OF ARTS AND SCIENCE

Department of Economics

ECONOMICS 112

Final Examination

Econ 112 Section 001 – Prof Ugurhan Berkok

April 19, 2018

INSTRUCTIONS TO STUDENTS:

This examination is 3 HOURS in length.

There are 6 sections to this examination.

This exam is printed on both sides of the page.

Mark your selections in PENCIL on the Answer Sheet. Fill in the appropriate rectangle completely, but stay within its limits. There is only one correct answer for each question; multiple answers will be marked as incorrect. If you make changes, be sure to erase completely.

Before you begin the exam please record your *Student Number*, *Name*, and *Test Form A* in the appropriate sections of the Answer Sheet. For detailed instructions on filling in this information see the back of this page.

<p>The following aids are allowed: Casio FX-991 calculator</p>

PLEASE NOTE:

Proctors are unable to respond to queries about the interpretation of exam questions.

Do your best to answer exam questions as written.

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Before You Begin the Exam:

1. Write your Student # under “**I.D. Number**” on the Answer Sheet and fill in the appropriate rectangle below each number. See example below.
2. Print your **Last Name** followed by first name in the appropriate space, and fill in the appropriate rectangle under each letter. (If your name is too long to fit in the spaces provided, please enter as many letters as you can.) See example below.
3. Under “**Test Form**”, fill in “**A**”. See example below.

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Part A [40 marks]

This section consists of 40 questions that survey the course material.

Answer all 40 questions; each question is worth 1 mark.

The diagram below shows two production possibilities boundaries for Country X.

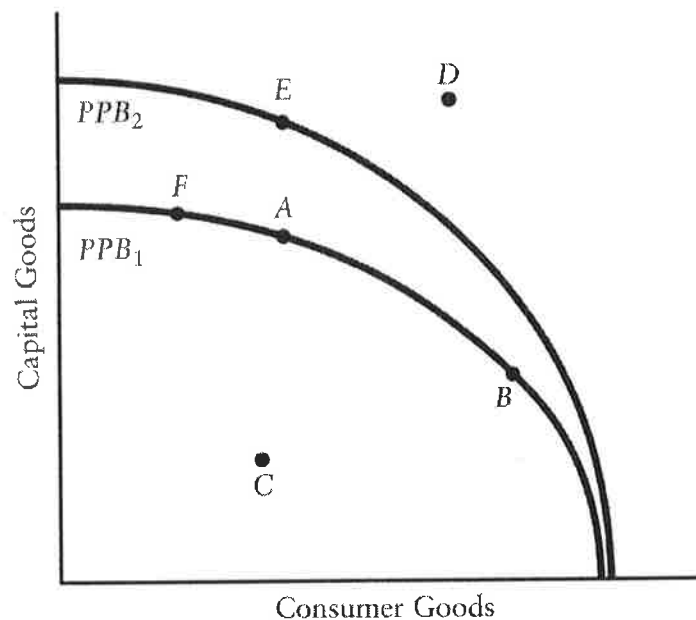


FIGURE 1-4

- 1) Refer to Figure 1-4. The production possibilities boundaries are drawn concave to the origin. What does this shape of the PPB demonstrate?
 - A) the decreasing opportunity cost of producing more of either good
 - B) the scarcity of resources in the economy
 - C) the constant opportunity cost of producing more of either good
 - D) the unfair distribution of resources in the economy
 - E) the increasing opportunity cost of producing more of either good

- 2) Suppose Amin has a job that pays him \$87 000 per year (after taxes). He is considering taking an unpaid leave of absence from his job to complete a 12-month MBA program. Tuition is \$75 000 and books and materials will cost \$5000. Living expenses for the 12-month period will be cheaper by \$500 per month, mostly due to lower apartment rental costs. What is the opportunity cost of Amin's 1-year MBA program?

A) \$75 000	B) \$76 000	C) \$161 000	D) \$167 000	E) \$175 000
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3) Which of the following is a normative statement?

- A) The sun rises in the west and sets in the east.
- B) A government deficit will reduce unemployment and cause an increase in prices.
- C) Reducing unemployment is more important than reducing inflation.
- D) Queen Elizabeth II is the wealthiest woman in the world.
- E) An increase in the price of lumber is followed by a decrease in the construction of new houses.

The following production possibilities schedule shows the quantities of wheat and rice that can be produced in Canada and India with one unit of equivalent resources.

	Wheat (bushels)	Rice (bushels)
Canada	13	5
India	6	13

TABLE 32-2

4) Refer to Table 32-2. If Canada were to transfer one unit of resources from rice to wheat production and if one unit of Indian resources were switched from wheat to rice production,

- A) total wheat production would go up by 7 bushels.
- B) total rice production would increase by 18 bushels.
- C) total wheat production would be decreased by 13 bushels.
- D) total rice output would decrease by 8 bushels.
- E) both total wheat and total rice production would go up by 7 bushels.

5) Refer to Table 32-2. To achieve the potential gains from international trade,

- A) India should export wheat to Canada and import Canadian rice.
- B) Canada should produce both wheat and rice and not trade with India.
- C) India should export rice to Canada and import Canadian wheat.
- D) India should exclude wheat from its consumption.
- E) India should produce both wheat and rice and not trade with Canada.

6) Suppose Honest Rob's Used Cars buys a used car for \$2000 and resells it for \$3000. The result of Honest Rob's transactions is to

- A) decrease the value of national income by \$3000.
- B) decrease the value of national income by \$1000.
- C) leave the value of national income unchanged.
- D) increase the value of national income by \$1000.
- E) increase the value of national income by \$3000.

- 7) If 27 million people are employed and 3 million people are unemployed, what is the unemployment rate?
- A) 11%
 - B) 89%
 - C) 10%
 - D) 90%
 - E) Not able to determine from the information provided
- 8) Suppose that a price index for a certain basket of goods and services has a value of 150 in 2015 and a value of 156 in 2016. This index suggests that the cost of the market basket of goods and services
- A) was 4% higher in 2016 than in 2015.
 - B) was 6% lower in 2016 than in 2015.
 - C) was 6% higher in 2016 than in 2015.
 - D) was 156% higher in 2016 than in 2015.
 - E) was approximately the same in 2016 and 2015.
- 9) Consider Canada's national accounts. An example of a transfer payment is
- A) government payments of salaries to schoolteachers.
 - B) government spending on military equipment.
 - C) pensions paid from the Canada Pension Plan.
 - D) private firms' payments of dividends.
 - E) government payments of salaries to Members of Parliament.

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
2016	Price	Quantity
Good A	\$2.00	120 units
Good B	\$3.00	200 units

TABLE 20-5

- 10) Refer to Table 20-5. If 2015 is the base year, then real GDP in 2016 was
- A) \$500.
 - B) \$520.
 - C) \$700.
 - D) \$840.
 - E) \$1040.
- 11) One major reason that GDP is an inaccurate measure of the "quality of life" is that
- A) people frequently buy things they do not want.
 - B) it does not include the value of leisure.
 - C) it is statistically very inaccurate.
 - D) it cannot be adjusted for changes in prices.
 - E) it includes net exports.
- 12) Suppose disposable income for an entire economy rises from \$400 billion to \$440 billion and desired consumption rises from \$350 billion to \$380 billion. We can conclude that the marginal propensity to consume for this economy is
- A) 0.65.
 - B) 0.75.
 - C) 0.80.
 - D) 0.90.
 - E) 1.33.

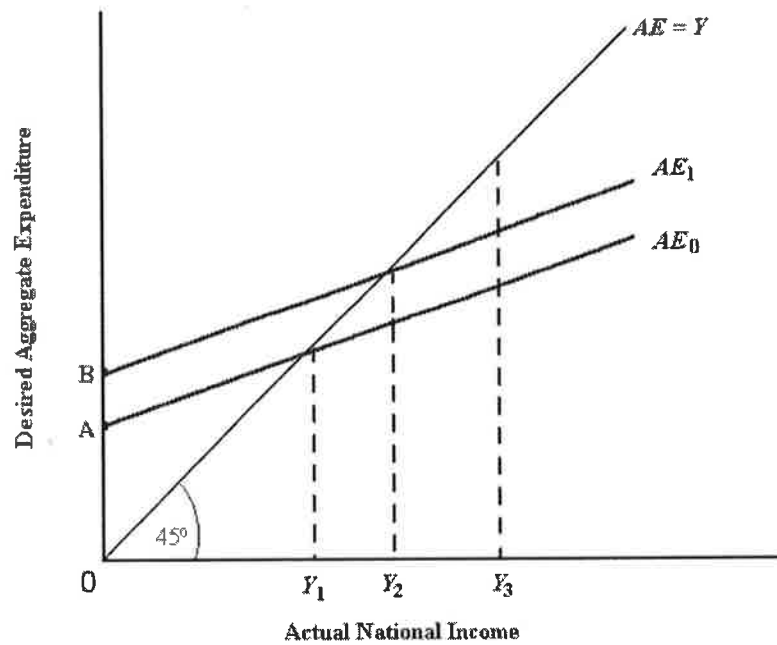


FIGURE 21-3

- 13) Refer to Figure 21-3. If national income is Y_3 and the aggregate expenditure function is AE_1 ,
- A) the economy is in equilibrium.
 - B) there is unintended inventory accumulation and income will rise.
 - C) there is unintended inventory accumulation and income will fall.
 - D) there is unintended inventory decumulation and income will rise.
 - E) there is unintended inventory decumulation and income will fall.
- 14) Consider a simple macro model with demand-determined output. In such a model, the larger is the marginal propensity to spend, the
- A) flatter is AE and the smaller is the multiplier.
 - B) flatter is AE and the larger is the multiplier.
 - C) steeper is AE and the smaller is the multiplier.
 - D) steeper is AE and the larger is the multiplier.
 - E) greater is investment as a percentage of GDP.
- 15) 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.
- 16) 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.

- 17) 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.
- 18) Which of the following would likely cause a downward shift in the AE curve and a movement upward along the AD curve?
- A) a decrease in the business confidence of firms
 - B) a reduction in government purchases
 - C) a decrease in the marginal propensity to consume
 - D) a decrease in the price level
 - E) an increase in the price level
- 19) The short-run aggregate supply curve (SRAS) 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
- 20) If the economy's AS curve is upward sloping, a positive aggregate demand shock will result in
- A) an increase in prices but not output.
 - B) an increase in output but not prices.
 - C) an increase in both output and prices.
 - D) a decrease in both output and prices.
 - E) a decrease in output and an increase in prices.
- 21) If the economy is experiencing a recessionary output gap, the adjustment process operates as follows:
- A) wages do not adjust, but the AD curve shifts to the right.
 - B) wages fall, unit costs fall, and the AD curve shifts rightward.
 - C) wages rise, unit costs rise, and the $SRAS$ curve shifts up.
 - D) wages rise, unit costs rise, and the $SRAS$ curve shifts down.
 - E) wages fall, unit costs fall, and the $SRAS$ curve shifts down.
- 22) In the basic AD/AS macro model, which of the following events would cause stagflation?
- A) a large decrease in wages
 - B) a large increase in business confidence
 - C) a large increase in the net tax rate
 - D) a large increase in the price of raw materials
 - E) a large increase in labour productivity

The diagram below shows an AD/AS model for a hypothetical economy which is initially in a short-run equilibrium at point A.

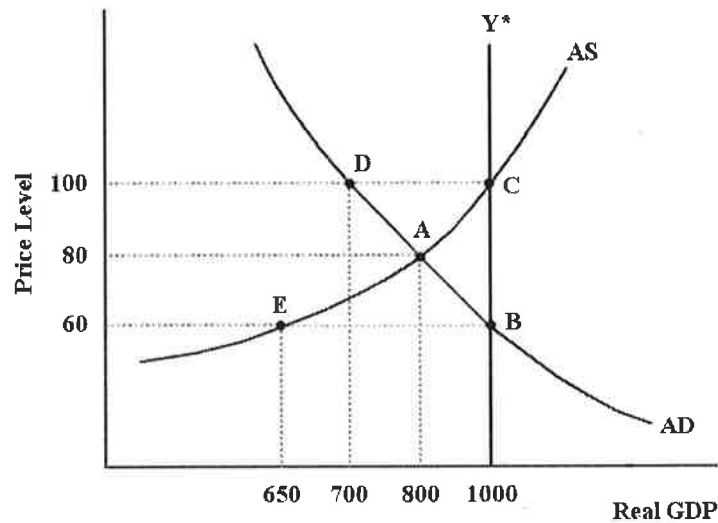


FIGURE 24-6

23) Refer to Figure 24-6. The government could close the existing output gap by

- A) increasing the net tax rate.
- B) decreasing the net tax rate.
- C) decreasing government purchases.
- D) decreasing government transfer payments.
- E) implementing a contractionary fiscal policy.

The diagram below shows alternate growth paths for two hypothetical economies, each starting with GDP of \$1 billion.

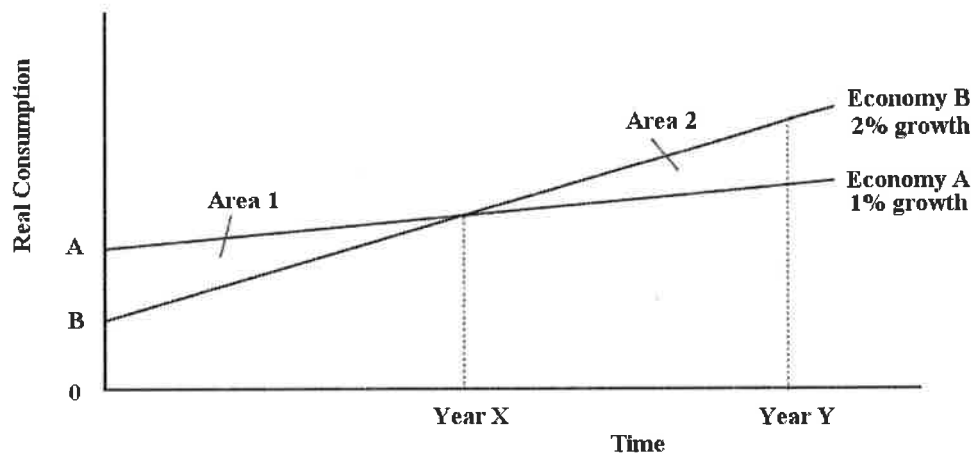


FIGURE 25-1

24) Refer to Figure 25-1. The area marked Area 1 represents

- A) the value of consumption from Year 0 to Year X in Economy A.
- B) the value of the investment in capital goods undertaken by Economy B.
- C) the value of the investment in capital goods undertaken by Economy A.
- D) the sacrifice of current consumption by Economy B, as compared to Economy A.
- E) the sacrifice of current consumption by Economy A, as compared to Economy B.

- 25) Consider the market for financial capital for a closed economy in the long run. Other things being equal, a country with a high national saving rate will tend to have
- A) a high growth rate because aggregate expenditure will be high out of any given income.
 - B) a high growth rate because sustained high investment is possible with high saving.
 - C) an *AS* curve moving continually to the left.
 - D) trouble achieving potential real national income in the short run.
 - E) either a high or low growth rate depending on the investment demand schedule.
- 26) One important assumption of the Neoclassical growth model is that, with a given state of technology,
- A) increases in the use of a single factor bring increasing returns.
 - B) increases in the use of a single factor result in constant returns.
 - C) increases in the use of single factor bring diminishing returns.
 - D) the return from successive units of a single factor increases over time.
 - E) increases in GDP are possible only if all factors are increased at an equal rate.
- 27) Which of the following is an example of the use of money as a medium of exchange?
- A) Dave keeps \$250 in his drawer for a "rainy day."
 - B) Mike gets a friend to give him a beer today in return for promising to give the friend two beer when Mike gets paid at the end of the month.
 - C) Judy lends her car to a friend who signs a promissory note that she will pay Judy \$10 a day for the use of the car after she returns the car to Judy.
 - D) Barry pays \$275 with his bank debit card for tickets for an NHL play-off game.
 - E) ABC Investments Inc. enters in its account books that it owes Nallai \$20 for his last month's investment income.
- 28) If the annual interest rate is 10%, \$5.00 received today has the same present value as
- A) \$4.00 received one year from now.
 - B) \$4.50 received one year from now.
 - C) \$5.00 received one year from now.
 - D) \$5.50 received one year from now.
 - E) \$6.00 received one year from now.
- 29) Speculative demand for money arises from the desire by individuals and firms to hold cash balances
- A) for speculative equity purchases.
 - B) in anticipation of changes in interest rates and bond prices.
 - C) to meet unforeseen business expenses.
 - D) in anticipation of investing in capital purchases for the firm.
 - E) to maintain adequate cash flow in case of inflation.
- 30) Consider the monetary transmission mechanism. A disturbance to monetary equilibrium which changes the interest rate will affect aggregate demand through
- A) a shift of the investment demand function and a movement along the aggregate expenditure curve.
 - B) a movement along the investment demand function and a shift of the aggregate expenditure curve.
 - C) a shift of both the investment demand function and the aggregate expenditure curve.
 - D) movements along the investment demand function and the aggregate expenditure curve.
 - E) a movement along the aggregate expenditure curve.

- 31) Most central banks, including the Bank of Canada, implement monetary policy by
- A) controlling the money supply directly.
 - B) influencing a short-term interest rate directly.
 - C) influencing investment demand directly.
 - D) influencing the demand for money directly.
 - E) controlling the process of deposit creation in the commercial banking system.
- 32) In an effort to maintain inflation at its targeted level the Bank of Canada designs its policies, in the short run, to
- A) eliminate all unemployment.
 - B) keep real GDP close to potential output.
 - C) minimize the growth of the money supply.
 - D) allow the aggregate supply curve to close any output gaps.
 - E) eliminate all negative shocks to the economy.
- 33) Suppose economists were able to measure frictional unemployment as 3%, cyclical unemployment as 2%, and structural unemployment as 4%. Then we would know that the NAIRU is _____ and the actual unemployment rate is _____.
- A) 6%; 5% B) 5%; 9% C) 7%; 9% D) 7%; 7% E) 6%; 6%
- 34) Which of the following is consistent with constant inflation: expected future inflation of _____, output-gap inflation of _____, and supply-shock inflation _____.
- A) 2%; 2%; 2% B) 2%; 0%; -2% C) 2%; 0%; 0% D) 1%; 1%; 1% E) 0%; 0%; -2%
- 35) If the Bank of Canada validates a positive *AD* shock,
- A) it will have eliminated the possibility of a continued inflation.
 - B) there is the risk of continued inflation.
 - C) wages will fall to reduce the resulting unemployment.
 - D) output will fall more rapidly than if the shock had not been validated.
 - E) the *AD* curve will shift to the left and inflation will stop.
- 36) Non-market-clearing theories of the labour market feature _____ wages, and thus involuntary unemployment _____.
- A) perfectly flexible; cannot exist
 - B) perfectly flexible; can exist
 - C) sticky; cannot exist
 - D) sticky; can exist
 - E) efficiency wages; cannot exist

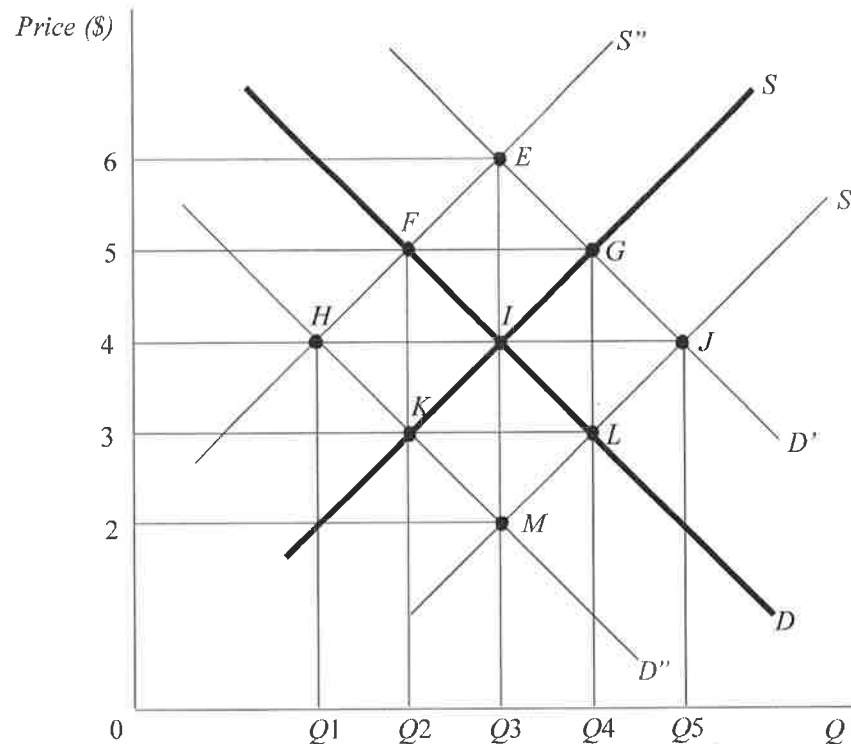
- 37) An increase in the rate of aggregate economic growth usually speeds up the rate of change in the structure of labour demand. As a result, we can expect that structural unemployment will _____, and will therefore cause the NAIRU to _____.
- A) decrease; increase
 - B) decrease; decrease
 - C) remain constant; remain constant
 - D) increase; increase
 - E) increase; decrease
- 38) The federal government's "primary budget deficit"
- A) includes domestic borrowing but excludes foreign borrowing.
 - B) excludes debt-service payments.
 - C) is the amount of government borrowing in a fiscal year.
 - D) is the amount of tax revenue minus the amount of interest paid on the public debt.
 - E) is the most important indicator of the level of government spending.
- 39) Suppose the government's actual budget deficit is equal to the structural (or cyclically adjusted) budget deficit. Then it must be the case that
- A) the primary budget deficit is zero.
 - B) the overall government budget is balanced.
 - C) the debt-to-GDP ratio is stable.
 - D) real GDP is equal to potential GDP.
 - E) the government is not reporting all of its expenses.
- 40) In an open economy like Canada's, a fiscal expansion by the government tends to
- A) reduce capital inflow, depreciate the currency, and increase net exports.
 - B) attract foreign capital and encourage increased investment.
 - C) crowd out net exports and encourage private investment.
 - D) attract foreign capital, appreciate the currency, and crowd out net exports.
 - E) attract foreign capital, depreciate the currency, and crowd out net exports.

Part B-112 [8 marks]

Answer all 8 questions; each question is worth 1 mark.

The following 8 questions (41-48) relate to the information given below. Try to do the questions in order since the answers for some questions depend on the answers to previous questions in the series.

Suppose the diagram below represents the market for a particular consumer good. It is assumed to operate under the principles of supply and demand.



41) Which of the following reasons explain why the supply curve S is upward-sloping?

- I. when the price falls, existing firms decrease their output
- II. when the price falls, firms may exit the market
- III. when the price falls, consumers switch from more costly substitutes

- A) I only.
- B) II only.
- C) III only.
- D) Both I and II.
- E) All of I, II, and III.

- 42) If the supply and demand curves are given by S and D , the equilibrium price and quantity would be:
A) \$4, Q_1 B) \$4, Q_3 C) \$4, Q_5 D) \$6, Q_3 E) \$2, Q_3
- 43) If the price was lower than the equilibrium price,
A) producers would be better off and consumers would be worse off than at the equilibrium price.
B) demand would automatically shift to ensure equilibrium at the lower price.
C) supply would automatically shift to ensure equilibrium at the lower price.
D) excess demand would cause price to rise to the equilibrium level.
E) excess supply would cause price to rise to the equilibrium level.
- 44) Suppose the original equilibrium is at point I . If the price of a substitute for the good rises, the new equilibrium will be at the point:
A) G B) H C) I D) J E) K
- 45) Suppose the original equilibrium is at point I . If consumer incomes fall, the new equilibrium will be at the point:
A) G if it is a normal good.
B) K if it is an inferior good.
C) I if it is a normal good.
D) I if it is an inferior good
E) K if it is a normal good.
- 46) Suppose the original equilibrium is at point I . If the wages paid by producers of the good fall, the new equilibrium will be at the point:
A) H B) I C) K D) L E) M
- 47) Suppose the original equilibrium is at point I . If consumption of the good is proved to have health benefits **and** the government decides to subsidize the production of the good, the new equilibrium will be at the point:
A) E B) G C) J D) L E) M
- 48) In the situation described in 47) above, we can say that the subsidy has
A) caused the price of the good to rise.
B) prevented the price of the good from rising.
C) caused the price of the good to fall.
D) prevented the price of the good from falling.
E) had no effect on the market whatsoever.

Part C [8 marks]

Answer all 8 questions; each question is worth 1 mark.

The following 8 questions (49-56) relate to the information given below. Try to do the questions in order since the answers for some questions depend on the answers to previous questions in the series.

Consider the following model of a closed economy. Output prices, factor prices and interest rates are assumed constant. We have the following information, where Y_D is disposable income and Y is national income.

Consumption: $C = 150 + (0.8)Y_D$

Investment: $I = 150$

Government Spending $G = 500$

Taxes (net of transfers) $T = (0.25)Y$

The space below is provided for you to keep track of your answers as you work through the series of questions. [Hint: You may want to sketch an AE diagram to help with this process.]

49) The equation for aggregate expenditures is given by:

- A) $AE = 800 + (.80)Y$
- B) $AE = 800 + (.75)Y$
- C) $AE = 800 + (.60)Y$
- D) $AE = 700 + (.80)Y$
- E) $AE = 700 + (.60)Y$

- 50) The equilibrium level of national income is:
A) 1500 B) 1750 C) 2000 D) 3500 E) 4000
- 51) In equilibrium, the government:
A) has a balanced budget.
B) is running a deficit of 125.
C) is running a deficit of 200.
D) is running deficit of 325.
E) is running a surplus.
- 52) Suppose that, as a result of a financial crisis, **both** autonomous consumption and investment fall by 100.
The new equilibrium level of national income is:
A) 1500 B) 1750 C) 2000 D) 3500 E) 4000
- 53) In this model, the multiplier is equal to:
A) 5.00 B) 4.00 C) 2.50 D) 2.00 E) 1.00
- 54) In the new equilibrium, the government:
A) has a balanced budget.
B) is running a deficit of 125.
C) is running a deficit of 200.
D) is running deficit of 325.
E) is running a surplus.
- 55) Suppose that government wants to use fiscal policy to restore the original level of national income. A policy that would accomplish this goal is:
A) an increase in spending of 50.
B) an increase in spending of 100.
C) an increase in spending of 200.
D) an increase in spending of 500.
E) an increase in spending of 1000.
- 56) After the change in government fiscal policy, the government:
A) has a balanced budget.
B) is running a deficit of 125.
C) is running a deficit of 200.
D) is running deficit of 325.
E) is running a surplus.

Part D [8 marks]

Answer all 8 questions; each question is worth 1 mark.

The following 8 questions (57-64) relate to the information given below. Try to do the questions in order since the answers for some questions depend on the answers to previous questions in the series.

Suppose the balance sheet for the only commercial bank in a particular country is given below. Assume that the only money in the country is in the form of deposits at the commercial bank.

Assets		Liabilities	
Reserves	200	Deposits	2200
Loans to the Public	1600		
Government Bonds	300		
Other Assets	300	Capital	200
Total	2400	Total	2400

- 57) The reserve ratio for the bank is
 A) $1/6$ B) $1/7$ C) $1/9$ D) $1/11$ E) $1/12$
- 58) The capital/loan ratio for the bank is
 A) $1/1$ B) $2/3$ C) $1/3$ D) $1/4$ E) $1/8$
- 59) Suppose the central bank of the country wishes to increase the size of the money supply, and does so by increasing the reserves at the bank to 300 units through an open market operation. Immediately after this transaction the reserve ratio will be:
 A) $3/22$ B) $1/6$ C) $1/8$ D) $1/11$ E) $3/26$

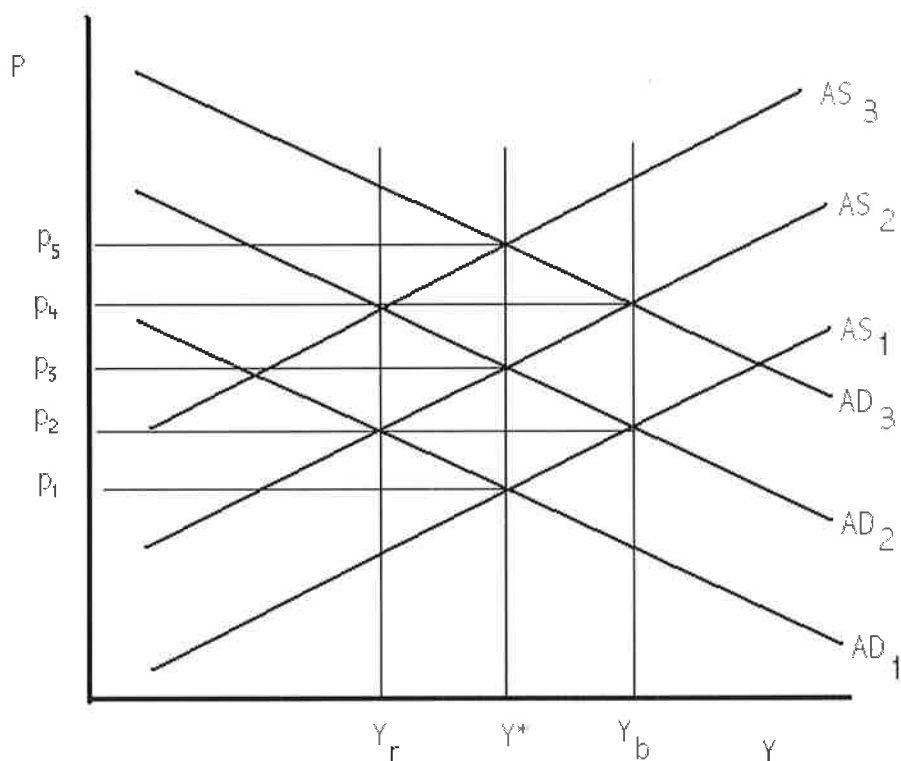
- 60) Assuming that the bank creates new loans in order to keep its reserve ratio at the original level, this will lead to the creation of new loans equal to _____ and an overall new money supply equal to _____:
- A) 1100, 3300
 - B) 400, 2600
 - C) 400, 2700
 - D) 300, 2700
 - E) 1100, 3100
- 61) Suppose now that the bank is governed by *additional* regulations that require it to have a capital/loan ratio of at least 10%. As above, the central bank of the country wishes to increase the money supply and increases the reserves at the bank to 300 through an open market operation. Under the assumption that the bank will increase its loans by the most it is allowed, this will lead to the creation of new loans equal to _____ and an overall new money supply equal to _____:
- A) 1100, 3300
 - B) 400, 2600
 - C) 400, 2700
 - D) 300, 2700
 - E) 1100, 3100
- 62) After the open market operation and the increase in loans, the reserve ratio will be:
- A) $3/22$ B) $1/6$ C) $1/8$ D) $1/11$ E) $3/26$
- 63) Under these same circumstances (a constraint to keep a capital/loan ratio of at least 10% and a desire to keep the reserve ratio equal to the original level), suppose that, instead of using an open market operation, the government of the country increases the reserves at the bank to 300 through a capital injection – i.e. it buys shares in the bank and pays for them by adding to the bank's deposits at the central bank. This will lead to the creation of new loans equal to _____ and an overall new money supply equal to _____:
- A) 1100, 3300
 - B) 1400, 3600
 - C) 400, 2800
 - D) 300, 2700
 - E) 1100, 3100
- 64) After this new transaction and the increase in loans, the reserve ratio will be:
- A) $3/22$ B) $1/6$ C) $1/8$ D) $1/11$ E) $3/26$

Part E [8 marks]

Answer all 8 questions; each question is worth 1 mark.

The following 8 questions (65-72) relate to the information given below. Try to do the questions in order since the answers for some questions depend on the answers to previous questions in the series.

The following is an aggregate supply – aggregate demand diagram for a country. Initially the curves are stable at AD_2 and AS_2 .



- 65) Initially, real GDP and the price level are given by:
 A) Y^* , P_3 B) Y_r , P_4 C) Y_b , P_2 D) Y^* , P_2 E) Y_b , P_4
- 66) Suppose there is an increase in investment due to growing business confidence. This will lead to a new short-run equilibrium given by:
 A) Y^* , P_3 B) Y_r , P_4 C) Y_b , P_2 D) Y^* , P_2 E) Y_b , P_4

- 67) Assuming that neither the government nor the central bank take any policy action, the result of the increase in investment will be:
- A) A boom followed by a return to Y^* , and continuing inflation.
 - B) A boom followed by a return to Y^* and then a recession with no effect on inflation.
 - C) A recession and a positive inflation rate, followed eventually by a deflation and a return to Y^* .
 - D) A boom and a positive inflation rate, followed by a return to Y^* and no further inflation.
 - E) A recession and deflation, followed eventually by inflation and a return to Y^* .
- 68) Suppose instead that the central bank does not want to wait for the natural adjustment of the economy to occur and decides to pursue a countercyclical monetary policy. It should:
- A) leave interest rates unchanged to pursue a contractionary monetary policy
 - B) increase interest rates to pursue a contractionary monetary policy
 - C) decrease interest rates to pursue a contractionary monetary policy
 - D) increase interest rates to pursue an expansionary monetary policy
 - E) decrease interest rates to pursue an expansionary monetary policy
- 69) If the lag until the full effects of monetary policy changes are fully reflected in the economy is short, the new equilibrium for the economy will be:
- A) Y^*, P_3 B) Y_r, P_4 C) Y_b, P_2 D) Y^*, P_2 E) Y_b, P_4
- 70) If the lag until the full effects of monetary policy changes are fully reflected in the economy is long, and the natural adjustment of the economy coincides with the full effect of the monetary policy change, the new equilibrium for the economy will be:
- A) Y^*, P_3 B) Y_r, P_4 C) Y_b, P_2 D) Y^*, P_2 E) Y_b, P_4
- 71) Suppose that after the change in investment the country becomes engaged in a trade dispute with its largest trade partner who threatens to enact a tariff policy that would reduce the country's exports. If the foreign country makes good on its threat the result would be:
- A) neutral, that is leave both AD and AS unchanged
 - B) a positive AD shock
 - C) a negative AD shock
 - D) a positive AS shock
 - E) a negative AS shock
- 72) If the lag until the full effects of monetary policy changes contemplated in #68 are fully reflected in the economy is long, and the effects of the trade dispute from #71 coincides with the full effect of the monetary policy change, the new equilibrium for the economy will be:
- A) Y_r, P_2 B) Y_r, P_4 C) Y_b, P_2 D) Y^*, P_2 E) Y_b, P_4

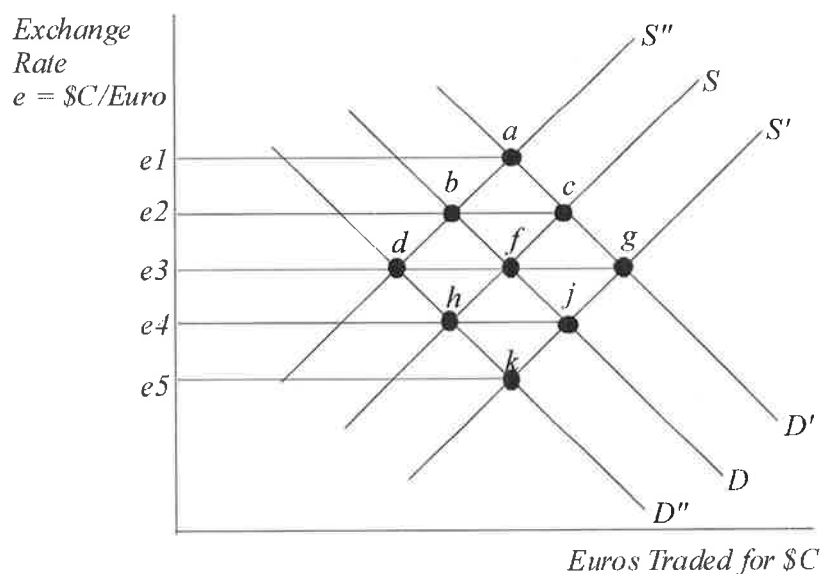
Part F [8 marks]

Answer all 8 questions; each question is worth 1 mark.

The following 8 questions (73-80) relate to the information given below. Try to do the questions in order since the answers for some questions depend on the answers to previous questions in the series.

The diagram below represents the market for Euros exchanged for Canadian dollars. The horizontal axis measures the quantity of Euros traded for Canadian dollars (\$C) and the vertical axis measures the exchange rate, the number of \$C per Euro.

Assume that the market is in the equilibrium represented by point “f”, and that the exchange rate between the Canadian dollar and the Euro is fully flexible.



- 73) The demand curve of Euros for Canadian dollars is downward sloping because, as e rises,
- A) the Canadian dollar appreciates so Canadians want to purchase fewer exports from Europe.
 - B) the Canadian dollar depreciates so Canadians want to purchase fewer exports from Europe.
 - C) the Canadian dollar appreciates so Canadians want to purchase more exports from Europe.
 - D) the Canadian dollar depreciates so Canadians want to purchase more exports from Europe.
 - E) the Canadian dollar depreciates so Europeans want to purchase fewer exports from Canada.
- 74) At the initial equilibrium point f ,
- A) the current account balance plus the capital account balance is positive.
 - B) the current account balance plus the capital account balance is negative.
 - C) the current account balance plus the capital account balance is zero.
 - D) the balance on the official financing account at the Bank of Canada is positive.
 - E) the balance on the official financing account at the Bank of Canada is negative.

- 75) Suppose consumer tastes in Europe change toward maple syrup (a major Canadian export to Europe). The new exchange rate will be ____ and the new equilibrium will be at ____.
- A) e_2 ; point b B) e_1 ; point a C) e_3 ; point d D) e_5 ; point k E) e_4 ; point j

Return to the original equilibrium at point “ f ”. For the balance of the series suppose that, as a result of Canadian monetary policy expansion, interest rates in Canada decrease relative to those in Europe.

- 76) As a result of the decrease in Canadian interest rates, the new exchange rate will be ____ and the new equilibrium will be at ____.
- A) e_2 ; point b B) e_1 ; point a C) e_3 ; point d D) e_5 ; point k E) e_4 ; point j
- 77) As a result of the change in Canadian interest rates,
- A) the Canadian dollar depreciates and Canadian net exports to Europe will increase.
B) the Canadian dollar depreciates and European net exports to Canada will increase.
C) the value of the Canadian dollar is unchanged so Canadian net exports to Europe will be unchanged.
D) the Canadian dollar appreciates and Canadian exports to Europe will decrease.
E) the Canadian dollar appreciates and European net exports to Canada will increase.
- 78) As a result of the change in Canadian interest rates, in Canada
- A) the short run aggregate supply curve shifts left.
B) the short run aggregate supply curve shifts right.
C) neither the short run aggregate supply curve nor the aggregate demand curve are affected.
D) the aggregate demand curve shifts left.
E) the aggregate demand curve shifts right.
- 79) If Canada was initially running a current account surplus, then the change in Canadian interest rates will
- A) cause a decrease the amount of the current account surplus.
B) have no effect on the amount of the current account surplus.
C) cause an increase the amount of the current account surplus.
D) result in a change the amount of the current account surplus but we cannot tell whether it would rise or fall.
E) cause the current account to fall into deficit.
- 80) As a result of the change in Canadian interest rates, Canada will
- A) not change its net borrowing from the rest of the world.
B) increase its net borrowing from the rest of the world.
C) decrease its net borrowing from the rest of the world.
D) increase its net lending to the rest of the world.
E) decrease its net lending to the rest of the world.