

Econ 112 Final Exam Multiple Choice Question Booklet

Instructions:

- (1) The bubble sheet for multiple-choice responses is the back page of the separate short-answer booklet.
- (2) Do not provide your multiple-choice responses in this booklet. It will not be graded.
- (3) Multiple-choice questions are worth 2 points each, for a total of 48 points. The short-answer problems are also worth a total of 48 points.

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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Q1. The following table indicates the labor hours needed to produce one unit of output.

	House	Car
Violet	1500 hours	300 hours
Jasmine	2000 hours	200 hours

- A. Violet has absolute and comparative advantage in producing houses
- B. Violet has absolute advantage in producing cars and comparative advantage in producing houses
- C. Jasmine has absolute and comparative advantage in producing houses
- D. Jasmine has absolute advantage in producing cars and comparative advantage in producing houses

Q2. Consider the following information about the economy of Pakistan. Note that the currency of Pakistan is the rupee.

- Government purchases: 4.40 trillions of rupees.
- Individuals consume: 8.90 trillions of rupees.
- Individuals save: 5.40 trillions of rupees.
- Businesses invest: 1.65 trillions of rupees.
- Foreigners spend: 0.59 trillions of rupees to purchase Pakistani firms.
- Pakistan imports: 2.15 trillions of rupees.
- Pakistan exports: 1.30 trillions of rupees.

Calculate Pakistan's GDP using the spending approach.

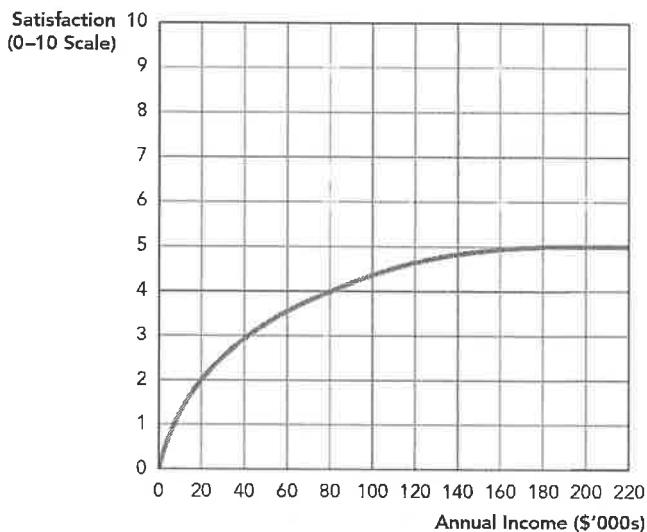
- A. 13.1 trillion rupees
- B. 14.1 trillion rupees
- C. 24.39 trillion rupees
- D. 20.09 trillion rupees

Q3. The Comprehensive Economic and Trade Agreement (CETA), signed in 2016, reduced trade barriers between Canada and the European Union and its member states. CETA's supporters argued that lower trade barriers would reduce consumer prices and that increased trade would create more jobs in Canada.

Identify one or more reasons why CETA could lead to lower consumer prices and job creation in Canada.

- A. Industries in which Canada has a comparative advantage will likely grow, thereby creating more jobs in Canada. Canada will also begin to import some goods that the EU has a comparative advantage in producing, lowering costs for Canadians.
- B. Industries in which Canada has a higher opportunity cost relative to European Union member states will likely grow, thereby creating more jobs in Canada.
- C. European Union member states are likely to produce some consumer goods previously produced in Canada at a lower opportunity cost. As a result, Canadian consumers will pay higher prices for these goods.
- D. European Union member states are likely to have higher opportunity costs than Canada in the production of some consumer goods. As a result, Canadian consumers will pay higher prices for these goods.

Q4. Use the income and well-being relationship in Graph 3 to answer the question



What does this imply about redistributing \$40,000 from someone who earns \$220,000 to someone who earns \$20,000?

- A. It will increase the overall well-being of society by 1.5 units.
- B. It will decrease the overall well-being of society by 1 unit.
- C. It will increase the overall well-being of society by 1 unit.
- D. It will not change the overall well-being of the society.

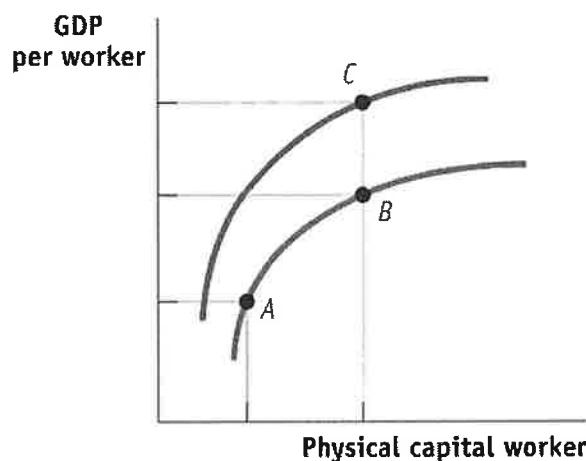
Q5. Allen is a 31-year-old who would like a job, is available to work, and most recently sought work six weeks ago. Bruce is a 59-year-old who has been without a job for two years, is available for work, and most recently sought work this week. Chung is a 35-year-old single parent working 10 hours a week, but is currently seeking a full-time job. Categorize each individual as employed, unemployed, or not in the labor force.

- A. Allen, Bruce and Chung are all unemployed
- B. Allen is not in the labour force, Bruce is unemployed, and Chung is employed
- C. Allen and Bruce are not in the labour force, and Chung is employed
- D. Allen and Bruce are unemployed, and Chung is employed

Q6. Eric is an experienced project manager who lost his job at a tech start-up because the company's product failed to become popular. He is confident he can get a new job and has already rejected a number of offers. Eric is experiencing

- A. cyclical unemployment
- B. voluntary unemployment
- C. structural unemployment
- D. frictional unemployment

Q7. On the graph below, a technological improvement, with everything else remaining unchanged, is shown in the diagram as a movement from:



- A. A to B
- B. A to C
- C. B to C
- D. B to A

Q8. A technological improvement, with everything else remaining unchanged, leads to:

- A. Higher returns to physical capital investment due to better productivity
- B. Lower returns to physical capital investment due to diminishing returns
- C. Lower returns to physical capital investment due to heightened depreciation
- D. Higher returns to physical capital investment due to catch-up growth

Q9. Consider Switzerland. Many economic variables influence the consumption decisions the Swiss make. Suppose that consumers in Switzerland learn that their future incomes will be lower than they previously believed. What will happen to Switzerland's consumption function?

- A. shift down
- B. shift up
- C. become steeper
- D. become flatter

Q10. Income and consumption changes for five people are shown in the table below:

Name	Income change	Consumption change
Abe	+\$10,000	+\$6,000
Barry	+\$5,000	+\$1,600
Chuck	+\$2,000	+\$1,600
Derek	-\$5,000	-\$3,500

Who has the highest marginal propensity to consume (MPC)?

- A. Abe
- B. Barry
- C. Chuck
- D. Derek

Q11. For a household making decisions about how much to spend today versus in future years, what is the most important interest rate?

- A. nominal interest rate
- B. real interest rate
- C. authentic interest rate
- D. future interest rate

Q12. Sarah and Amy both had a \$1,000 increase in their pay cheque this month. Sarah spent the entire \$1,000 right away, while Amy only spent \$100. Which of the following explains the difference in their spending response?

- A. Sarah expected this raise, but it was a surprise for Amy.
- B. Amy's increase was a temporary bonus while Sarah's was a permanent raise
- C. Sarah's consumption function is above Amy's
- D. Amy is a Hand-to-Mouth consumer so she could not afford to spend the full raise

Q13. The consumer price index was 126.6 in 2015 and is now 161.2 in 2025. If Rick's nominal salary was \$100,000 in 2015 and is now \$200,000 in 2025. How much was Rick's 2015 salary in 2025 dollars?

- A. \$161,200
- B. \$127,330
- C. \$126,600
- D. \$62,035

Q14. In a world without money as a medium of exchange, which of the following is true:

- A. People would not be able to borrow or save, and so could not follow the rational rule for consumers.
- B. People would be able to specialize in production just as much as with money
- C. People could only trade when there is a double-coincidence of wants
- D. All of the above

Q15. Which piece of information is NOT used to calculate a real exchange rate:

- A. domestic price in foreign currency
- B. domestic price in home currency
- C. foreign price in foreign currency
- D. nominal exchange rate

Q16. When a Japanese firm buys Canadian lumber, this transaction appears as a

- A. debit on the Canadian capital account.
- B. credit on the Japanese capital account.
- C. credit on the Canadian current account.
- D. credit on the Japanese current account.

Q17. The purchase of foreign assets by Canadians is, for Canada, considered a capital

- A. outflow and is recorded as a debit on the current account.
- B. outflow and is recorded as a debit on the financial account.
- C. inflow and is recorded as a credit on the financial account.
- D. inflow and is recorded as a debit on the financial account.

Q18. Consider the balance-of-payments account data for Ruritania in 2025 as shown in the table below. All values are in billions of dollars and any variables not provided below have a value of zero.

Exports	500
Imports	350
Net foreign-investment income	-60
Capital outflows	180
Capital inflows	90

What is the current account balance for Ruritania in 2025?

- A. -\$250 billion
- B. -\$90 billion
- C. \$90 billion
- D. \$210 billion

Q19. You learn from the news that Canada's real GDP grew by 2.3% last year. Your friend Michael says that Canada's economy is doing well because it is experiencing an expansion, but your other friend Lucas says the economy is not doing well because the output gap is negative. Which of the following could be true:

- A. Michael is correct and Lucas is wrong because a growing real GDP does indicate an expansion and positive output gap.
- B. Both Michael and Lucas are wrong because real GDP is a leading indicator.
- C. Michael and Lucas are both correct because the economy is growing but real GDP is below potential output.
- D. Michael and Lucas are both correct because the economy only grows until it reaches potential output.

Q20. If the Bank of Canada does a good job of making inflation predictable and close to 2% per year, what would be the costs of this inflation.

- A. Menu costs, shoe-leather costs and price-signal confusion
- B. Menu costs and price-signal confusion.
- C. The inflation fallacy
- D. Menu costs and shoe-leather costs

Q21. Which of the following could cause a positive aggregate demand (AD) shock, but leave the aggregate supply curve unaffected in the short run?

- A. A comprehensive free trade agreement between Canada and Europe.
- B. A severe drought lasts for six months destroying agricultural and forest production.
- C. An improvement in the computer literacy of workers.
- D. A substantial increase in world oil prices.

Q22. Which of the following best describes the effects of countercyclical policy:

- A. Any cut in the real interest rate or increase in government spending is expansionary.
- B. Only increases in government spending or cuts in the real interest rate due to output concerns are expansionary.
- C. Only increases in government spending or cuts in the real interest rate due to inflation concerns are expansionary.
- D. Governments spending increases are expansionary, but increases in social transfers are not.

Q23. Consider the following two simultaneous infrastructure construction announcements by the federal government: "Quebec City - Windsor fast train project" and "Natural gas east pipeline from Alberta to Nova Scotia". Coincidentally, another industry news reads: "The new infrastructure building technology through rural areas drives down building costs." Choose the statement below that best describes the likely macroeconomic effects.

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

Q24. Suppose the government spends \$1 billion dollars on a new bridge during a recession. Construction workers on the project spend an extra \$500 million due to the increases in their income from working on the project, the Bank of Canada increases the real interest rate by 0.25% due to inflationary effects, and the governments spending multiplier is 2. How much does buying the new bridge shift aggregate demand by?

- A. \$1 billion
- B. \$1.5 billion
- C. \$2 billion
- D. \$1.0025 billion

HAND IN

Answers recorded on exam paper

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EXAM COVER PAGE

QUEEN'S UNIVERSITY FINAL EXAMINATION
FACULTY OF ARTS AND SCIENCE
DEPARTMENT OF ECONOMICS
ECON 112 Winter 2025 - Professor Ugurhan Berkok

PLEASE NOTE: Proctors are unable to respond to queries about the interpretation of exam questions. Do your best to answer exam questions as written.

First name (please write as legibly as possible within the boxes)

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Last name

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Student ID number

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INSTRUCTIONS TO STUDENTS: This examination is 3 HOURS in length. Please answer all questions in the exam. A separate booklet of multiple-choice questions is provided. Answer on the bubble sheet at the end of this booklet

The following aids are allowed:
Casio FX-991 calculator

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Short questions (16 points each question. Total 48 points)

Question 1: It is the year 2030 and changes in global energy prices have increased production costs for suppliers in Canada. The resulting inflation has caused the Bank of Canada to raise the real interest rate.

- (a) Illustrate this macroeconomic shock and the resulting changes in inflation and GDP using the AS-AD framework. [7pts]

- (b) Suppose the Government of Canada now increases infrastructure spending to boost the economy. Illustrate the resulting macroeconomic shifts. Be sure to indicate whether output and the price level rise or fall. (You can take the new equilibrium from part (a) as the starting point for this graph). [7pts]

(c) It is now the year 2035 and global energy prices are still high, making the increased production costs faced by Canadian suppliers permanent. Despite this permanence, the Government of Canada continues to operate with higher infrastructure spending. Briefly state how this continued infrastructure program affects output and the price level five years later? [2pts]

Question 2: The following data describe Jennifer's consumption function:

Income	Consumption
\$10,000	\$10,000
\$20,000	\$20,000
\$30,000	\$30,000
\$40,000	\$32,000
\$50,000	\$34,000
\$60,000	\$36,000

(a) (i) What is Jennifer's Marginal Propensity to Consume if her income is \$20,000? (show your work/formulas) [2pts]

(ii) What is Jennifer's Marginal Propensity to Consume if her income is \$50,000? (show your work/formulas) [2pts]

(b) Draw Jennifer's consumption function. [4pts]

(c) Jennifer acts as a Hand-to-Mouth consumer over part of her consumption function, and as a forward-looking consumption-smoother over another part. Over which range of incomes does she act as a Hand-to-Mouth consumer? Briefly Explain [2pts]

(d) Suppose that Jennifer learns that her employer is going out of business next year and her income will fall.

(i) If Jennifer's current income is \$20,000, how does her consumption spending react to the news? [2pts]

(ii) If Jennifer's current income is \$50,000, how does her consumption spending react to the news? [2pts]

(iii) Briefly explain why the reactions in (i) and (ii) are different or the same. [2pts]

Question 3: Consider the market in which Canadian dollars are sold in exchange for Japanese Yen.

- (a) Illustrate how a recession in Japan affects this market. Be sure to indicate how the nominal exchange rate and quantity of Canadian dollars traded changes. [8pts]

(b) Suppose that prior to the Japanese recession the nominal exchange rate was 90 Yen per Dollar, the price of pork in Japan was 450 Yen/kilogram, and the price of pork in Canada was 4 Dollars/kilogram. What was Canada's real exchange rate for pork with Japan? (show your work/formulas) [4pts]

(c) How will Canada's current account deficit be affected by the recession in Japan? Briefly explain. [4pts]

Name: _____

Student ID Number: _____

Instructions:

Please completely fill in the rectangle associated with your response. Example: 

A	B	C	D	E	A	B	C	D	E	A	B	C	D	E	A	B	C	D	E				
1	CAD	CBD	CDC	CDD	CDE	26	CAD	CBD	CDC	CDD	CDE	51	CAD	CBD	CDC	CDD	CDE	76	CAD	CBD	CDC	CDD	CDE
2	CAD	CBD	CDC	CDD	CDE	27	CAD	CBD	CDC	CDD	CDE	52	CAD	CBD	CDC	CDD	CDE	77	CAD	CBD	CDC	CDD	CDE
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