

EXAM COVER PAGE

Total of 28 pages

for
exam

QUEEN'S UNIVERSITY FINAL EXAMINATION
FACULTY OF ARTS & SCIENCE
DEPARTMENT OF ECONOMICS

ECON 112 - 700 - Nam Phan
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INSTRUCTIONS TO STUDENTS:

This examination is 3 HOURS in length.
There are 120 multiple-choice questions.
Please answer all questions on the scantron

The following aids are allowed:

Calculators
Scrap papers

GOOD LUCK!

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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1. On a diagram of a production possibilities boundary, the concept of opportunity cost is illustrated by the
 - A. boundary being concave to the origin.
 - B. distance from the origin to the boundary.
 - C. negative slope of the boundary.
 - D. area bounded by the two axes and the boundary.
 - E. unattainable points outside the boundary.
2. Most modern economies in the world today
 - A. are mostly run by government decree.
 - B. are similar to feudal systems.
 - C. have a mix of traditional, command and market elements.
 - D. have pure market exchange.
 - E. are complex systems that defy description and analysis.
3. Assume that apples and oranges are substitute goods. Given the initial supply and demand curves for apples, a reduction in the price of oranges will tend to
 - A. increase the demand for apples.
 - B. increase the demand for oranges.
 - C. increase the price of apples.
 - D. decrease the price of apples.
 - E. decrease the demand for oranges.
4. Suppose the demand and supply curves in the market for apples have the following functional form: $Q_D = 250 - 4p$ and $Q_S = 10 + p$. If the prevailing market price is 40, then
 - A. the market exhibits an excess demand of 50 units.
 - B. the market is clearing.
 - C. the market exhibits an excess demand of 40 units.
 - D. the market exhibits an excess supply of 40 units.
 - E. the market exhibits an excess supply of 50 units
5. The existence of any "gains from trade" relies on
 - A. comparative advantage.
 - B. tariffs

- C. both absolute and comparative advantage.
 - D. closed economies.
 - E. absolute advantage.
6. Suppose national accounting was done by adding up the market values of all outputs of all firms. This approach would
- A. overestimate the value of production in the economy.
 - B. obtain gross domestic product.
 - C. obtain gross national product.
 - D. accurately reflect the value of production in the economy.
 - E. underestimate the value of production in the economy.
7. Consider a simple macro model with a constant price level and demand-determined output. The equations of the model are: $C = 150 + 0.84Y$, $I = 400$, $G = 700$, $T = 0$, $X = 130$, $IM = 0.08Y$. The marginal propensity to spend on national income, z , is
- A. 0.840.
 - B. 0.920.
 - C. 0.655.
 - D. 0.773.
 - E. 0.760.
8. The economy's AS curve is often assumed to be relatively flat at low levels of real GDP. The underlying reasoning is that
- A. consumer demand for most goods tends to be non-responsive to price when output is low.
 - B. at low levels of output, firms are faced with unused capacity and thus can increase output without significantly increasing their costs.
 - C. the price level is constant.
 - D. profits are normally high in this section of the AS curve, so firms are willing to expand output.
 - E. consumer demand for most goods tends to be very responsive to price when output is low.
9. Which of the following best describes the concept of *potential output*?
- A. the total output that can be produced when the economy is in short-run economic equilibrium

- B. the total output that could be produced in the future when technological advances allow for a higher level of output
 - C. the total output that can be produced when all productive resources (land, labour, and capital) are used at their *maximum* capacity
 - D. the total output that could be produced if no productive resource (land, labour, and capital) was ever left idle
 - E. the total output that can be produced when all factors of production (land, labour, and capital) are fully employed
10. An important assumption in the AD/AS macro model is that when real GDP exceeds potential output, factor prices rise and the
- A. AS curve shifts to the left.
 - B. AS curve shifts to the right very rapidly.
 - C. AD curve shifts to the right.
 - D. AD curve shifts to the left rapidly.
 - E. None of the above - the AS curve remains unchanged.
11. Consider the basic AD/AS macro model in long-run equilibrium. An expansionary AD shock will _____ the price level and _____ output in the short run. In the long run, the price level will _____ and output will _____.
- A. decrease; decrease; decrease further; decrease further
 - B. increase; increase; increase further; increase further
 - C. increase; increase; increase further; be restored to potential output
 - D. decrease; decrease; decrease further; be restored to potential output
 - E. increase; decrease; increase further; be restored to potential output
12. Consuming fewer goods today in order to invest resources in capital goods can be considered the _____ of economic growth.
- A. total cost
 - B. external cost
 - C. social cost
 - D. opportunity cost
 - E. investment cost
13. Data from most industrialized countries show that countries with high investment rates (as a percentage of GDP) tend to be countries

- A. with high rates of economic growth.
 - B. with the highest levels of per capita GDP.
 - C. with a negative relationship between investment and the rate of economic growth.
 - D. with the highest levels of GDP.
 - E. with the lowest rate of national saving.
14. When discussing the banking system, a cash drain of 5% means that
- A. depositors wish to hold 95% of the value of their deposits in cash.
 - B. 95% of an initial new deposit is maintained as cash reserves by the commercial bank.
 - C. 5% of an initial new deposit to the banking system is payable as a financial services tax.
 - D. depositors wish to hold 5% of the value of their deposits in cash.
 - E. 5% of an initial new deposit to the banking system is paid in banking fees and is therefore not available for the creation of new deposit money.
15. What is implied by the "long-run neutrality of money"?
- A. Changes to the money supply never have any effect on real GDP.
 - B. The economy's level of potential output will adjust to accommodate any change in the money supply.
 - C. Changes to the money supply have no effect on either the price level or real GDP.
 - D. In response to any change in the money supply, the demand for money will adjust to cancel out its effects on all macroeconomic variables.
 - E. In response to any change in the money supply, the economy's adjustment process will bring Y back to Y^* , which is unaffected by the change in the money supply.
16. Which of the following factors shifts the aggregate demand (AD) curve to the right in the AS-AD model?
- A. An increase in the price level
 - B. An increase in the export
 - C. An increase in the import
 - D. A decrease in the government spending
17. Wonderland is an open-economy with government. Suppose that due to an international trade conflict, Wonderland cannot export goods to foreign countries anymore, which leads to a contraction in the short-run real GDP.

Which of the following set of fiscal policy will stabilize the short-run real GDP in Wonderland

- A. Decrease in Tax and Decrease in Government Spending
- B. Increase in Tax and Decrease in Government Spending
- C. Decrease in Tax and Increase in Government Spending
- D. Increase in Tax and Increase in Government Spending

18. Consider a simple long-run growth model in a closed-economy without government. What will happen to the equilibrium interest rate and investment following an increase in national saving?

- A. The interest rate increases and investment decreases
- B. The interest rate decreases and investment increases
- C. The interest rate increases and investment increases
- D. The interest rate decreases and investment decreases

19. In macroeconomics, the "output gap" is the difference between

- A. output in the current year and output in the base year.
- B. potential real national income and actual real national income.
- C. output and employment.
- D. real and nominal national income.
- E. real GNP and real GDP.

20. In our simple macro model with government, consider the equation $T = (0.2)Y$. Which of the following statements about this equation is correct?

- A. If national income increases by \$1.00, then net tax revenue increases by \$0.20.
- B. Total tax revenues are equal to 20% of real GDP.
- C. Total tax revenues are equal to 20% of disposable income
- D. If total tax revenue increases by \$0.20, then national income increases by \$1.00.
- E. Net tax revenues are equal to 20% of disposable income

21. Consider two economies, A and B. Economy A has a marginal propensity to consume of 0.9, a net tax rate of 0.2 and a marginal propensity to import of 0.2. Economy B has a marginal propensity to consume of 0.7, a net tax rate of 0.2 and a marginal propensity to import of 0.2. 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 to the left the same amount in both economies.
- B. The AD curve shifts farther to the left in Economy B than Economy A.
- C. The simple multiplier is larger in Economy A.

- D. The *AD* curve shifts to the right the same amount in both economies.
- E. The *AD* curve shifts farther to the right in Economy A than Economy B.

22. Which of the following best describes the concept of scarcity?

- A. Production is efficient, but distribution is inefficient
- B. Too many frivolous goods and services are produced at the expense of socially desirable goods and services
- C. Society is not employing all of its available resources in efficient manner
- D. Scarcity afflicts only poor countries
- E. People's wants can never be satisfied by the available resources

23. If the legal beer-drinking age is raised from 18 to 21, the changes to the equilibrium price and quantity of beer are likely to be that

- A. price rises and quantity rises.
- B. price rises and quantity falls.
- C. price falls and quantity falls.
- D. price falls and quantity rises.
- E. no change in price or quantity occurs.

24. Steel is an important input to the production of cars. Tires and cars are used together by consumers. What will occur in the market for tires when there is an increase in the price of steel?

- A. Price falls; quantity rises.
- B. Price rises; quantity falls.
- C. Price falls; quantity falls.
- D. Price rises; quantity rises.
- E. No change in price or quantity occurs.

25. In macroeconomics, if the value of the national product increases, there is

- A. an even larger increase in the value of income claims on that output, due to value added.
- B. an equal increase in the value of income claims on that output.
- C. a decrease in the value of income claims on that output, due to importing.
- D. a decrease in the value of income claims on that output, due to household saving.
- E. decrease in value of income claims on that output, due to taxation.

26. All goods and services produced by one firm but used as inputs into a further stage of production are called

- A. Consumption goods
 - B. Final goods
 - C. Intermediate goods
 - D. Value added
 - E. National income goods
27. Suppose nominal national income in some country increased by 10% during the year, when inflation was 5%. In this case, the real national income
- A. was unaffected
 - B. fell by 10%
 - C. fell by 5%
 - D. rose by 10%
 - E. rose by 5%
28. Following any *AD* or *AS* shock, economists typically assume that the adjustment process continues until
- A. the output gap is at a stable level.
 - B. Y^* adjusts to its long-run equilibrium level.
 - C. the *AD* and *AS* curves intersect each other at the correct price level.
 - D. factor prices have returned to their levels previous to the shock.
 - E. real GDP returns to Y^* .
29. Consider the *AD/AS* macro model. An important asymmetry in the behaviour of the *AS* curve is that
- A. positive output gaps can persist for a long time without causing increases in wages and prices, whereas negative output gaps lead to immediate reductions in wages and prices.
 - B. negative output gaps can persist for a while without causing large decreases in wages and prices, whereas positive output gaps lead more quickly to increases in wages and prices.
 - C. wages are very flexible in the downward direction, but not in the upward direction.
 - D. prices are sticky but wages are not.
 - E. wages and prices are equally sticky in both directions
30. "The level of potential output, Y^* , acts like an anchor for the level of real GDP." Which of the following best explains this statement?
- A. The concept of potential output, Y^* , as an anchor for real GDP refers to the fiscal policy tools used to bring real GDP back to Y^* .
 - B. Real GDP is "anchored" to potential output, Y^* , because real GDP is, by definition, always equal to Y^* .
 - C. Following an *AD* or *AS* shock that pushes real GDP away from Y^* , the adjustment of factor prices brings real GDP back to Y^* .

- D. Following an *AD* or *AS* shock that pushes real GDP away from Y^* , changing technology brings Y^* back to real GDP.
 - E. The level of potential output, Y^* , is equal to whatever the level of actual GDP, no matter what shocks hit the economy.
31. In the basic AD/AS macro model, which of the following events could cause a negative AS shock?
- A. a large decrease in wages
 - B. a large increase in labour productivity
 - C. a large increase in business confidence
 - D. a large decrease in the net tax rate
 - E. a widespread outbreak of a serious infectious disease
32. The "long-run aggregate supply curve," vertical at Y^* , shows that
- A. potential output will rise as prices rise.
 - B. potential output is compatible with any price level.
 - C. prices will always rise in the long run.
 - D. potential output will fall as prices rise.
 - E. potential output is compatible with one particular price level.
33. Why are income taxes in Canada considered to be automatic stabilizers? Because
- A. tax revenues are changed through discretionary fiscal policy to create surpluses in recessions.
 - B. tax revenues increase when income increases, thereby offsetting some of the increase in aggregate demand.
 - C. tax structures can be changed when the Minister of Finance brings down a budget.
 - D. tax revenues are changed through discretionary fiscal policy to keep the budget balanced.
 - E. tax revenues decrease when income increases, thereby intensifying the increase in aggregate demand.
34. Fiscal policies typically affect the short-run level of GDP because they cause shifts in the _____, but they will not generally have any long-run effects on real GDP unless they affect _____.
- A. AS curve; factor supplies or factor productivity
 - B. AD curve; the unemployment rate
 - C. AD curve; factor-utilization rates
 - D. AS curve; factor-utilization rates

E. AD curve; the level of potential output

35. The main properties of a Neoclassical aggregate production function are _____ when all factors are increased proportionally and _____ when any one factor is increased on its own.

- A. constant returns to scale; constant marginal returns
- B. increasing returns to scale; increasing marginal returns
- C. increasing returns to scale; diminishing marginal returns
- D. constant returns to scale; diminishing marginal returns
- E. decreasing returns to scale; diminishing marginal returns

36. What is a *bank run*?

- A. The collapse of a commercial banks as a result of the devaluation of their assets.
- B. The collapse of a non-commercial bank as a result of non-payment of loans, which leads to a recession.
- C. A situation where all commercial banks in the system are simultaneously short of reserves.
- D. A situation where a commercial bank is holding zero reserves.
- E. A panic situation where many depositors rush simultaneously to withdraw their deposit money in the form of cash.

37. What is the present value of a bond that pays \$121.00 one year from today if the interest rate is 10% per year?

- A. \$100.00
- B. \$121.00
- C. \$110.00
- D. \$133.10
- E. \$221.00

38. 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 want to keep cash on hand to buy bonds if bond prices drop.
- D. households want to hold money in order to make purchases of goods and services.
- E. households wish to have all their wealth in the form of money.

39. Other things being equal, an exogenous fall in the domestic price level leads to a rise in private-sector wealth. As a result, there is
- A. an increase in autonomous desired consumption.
 - B. a downward shift in the AE curve.
 - C. a downward shift in net exports.
 - D. domestic goods appearing less attractive to foreigners.
 - E. an increase in the average propensity to save.
40. Consider the basic AD/AS model. If major labour unions succeed in increasing wages across the economy, the *AS* curve will shift
- A. upward (to the left), increasing the price level.
 - B. downward (to the right) and then return immediately to its original position.
 - C. upward (to the left) and then return immediately to its original position.
 - D. downward (to the right), reducing the price level.
 - E. None of the above; there will no effect on the *AS* curve.
41. Which of the following could cause a movement along the economy's *AS* curve?
- A. a change in the price level
 - B. a change in labour productivity
 - C. a change in technology
 - D. a change in the wage rate
 - E. a change in the cost of capital
42. Consider the basic AD/AS model with a very steep, positively sloped *AS* curve. A negative aggregate demand shock will result in
- A. an increase in both the price level and real national income.
 - B. a decrease in the price level with almost no change in real national income.
 - C. no change in either price level or output.
 - D. a decrease in the price level and an increase in real national income.
 - E. an increase in the price level and a decrease in real national income.
43. Which is an example of a positive statement?
- A. There should be one price for gasoline throughout Canada.
 - B. Corporations in Canada should pay more taxes.
 - C. Substitutes for fossil fuels should be developed.
 - D. Canada should reduce its imports of consumer goods.

E. The higher the price for gasoline, the less of it will be consumed.

44. Which of the following is a normative statement?

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

45. Consider a simple macro model with a constant price level and demand-determined output. The equations of the model are: $C = 150 + 0.84Y$, $I = 400$, $X = 130$, $IM = 0.08Y$, $T = 0$. Equilibrium national income is 5000 when G is equal to

- A. 520.
- B. 580.
- C. 812.
- D. -40.
- E. 740.

46. Suppose per capita GDP in a richer country is growing at a faster annual rate than in a poorer country. An implication of this difference in growth rates is that

- A. whether the gap in living standards widens or closes over time depends on the absolute size of the relative growth rates.
- B. the gap between their standards of living will close over time as long as the rate of population growth is higher in the poorer country.
- C. the difference in their living standards will not change over time.
- D. the gap between their standards of living will close over time.
- E. the gap between their standards of living will widen over time.

47.

Northern Bank: Balance Sheet

Assets		Liabilities	
Reserves	\$800	Deposits	\$10 000
Loans	<u>\$11 200</u>	Capital	<u>\$2000</u>
	\$12 000		\$12 000

TABLE 26-6

Refer to Table 26-6. Assume that Northern Bank's target reserve ratio is 10%. What is its *actual* reserve ratio?

- A. 6.67%
- B. 7.1%
- C. 10.0%
- D. 8.0%
- E. 9.1%

48. Total value added in an economy is equal to the value of

- A. all final and intermediate goods produced.
- B. all inputs and outputs in the economy.
- C. all profits of all firms in the economy.
- D. the sum of the value of primary, intermediate and final goods.
- E. all final goods produced.

49. A farmer raises free-range chickens, which he sells to a company for \$1000. That company sells the "processed" chickens to a grocery store for \$1600, which in turn produces roasted chickens which are sold to the public for \$2400. Based on this information, the value of total output is equal to

- A. \$1400.
- B. \$2400.
- C. \$5000.
- D. \$1600.
- E. \$4000.

50. Consider a firm producing skateboards in one factory. In determining this firm's value added to national income, we would start with its total revenue and subtract the cost of (among other things)

- 1) salaries to the firm's cleaning staff;
- 2) electricity used in the factory;
- 3) the wood used for the base of the skateboards.

- A. 1 and 2
- B. 2 and 3
- C. 1 and 3
- D. 1 only
- E. 3 only

51. Consider the following statement: "An increase in per capita income guarantees an increase in living standards." Is this statement true or false, and why?
- A. False. Living standards have no statistical correlation with per capita income, and so such a guarantee is not possible.
 - B. True. Per capita income is the most important contributor to living standards.
 - C. False. Per capita income could be increasing while at the same time living standards are deteriorating due to, for example, environmental degradation or a decline in social cohesion.
 - D. True. The measure of living standards is a subset of per capita income, so when one measure increases, the other measure must also increase.
 - E. Impossible to determine because "living standards" is a subjective concept that cannot be measured.
52. In a simple macro model, an increase in households' wealth is generally assumed to
- A. cause an upward shift in the aggregate consumption function.
 - B. cause no change in desired consumption because consumption is a function of disposable income only.
 - C. affect only desired saving, not desired consumption.
 - D. cause a downward shift in the aggregate consumption function.
 - E. cause no change in desired consumption because the increase is always expected.
53. The "marginal propensity to consume" refers to the additional
- A. desired consumption that occurs out of an additional dollar of investment.
 - B. desired saving that occurs out of an additional dollar of disposable income.
 - C. desired consumption that occurs out of an additional dollar of disposable income.
 - D. desired consumption that occurs out of an additional dollar of national income.
 - E. desired consumption caused by a change in tastes.
54. The "precautionary demand" for money arises from the
- A. desire to avoid paying interest on credit purchases.
 - B. need to make predictable purchases of goods and services.
 - C. uncertainty about when some expenditures will be necessary.
 - D. fear that interest rates will rise.
 - E. fear that interest rates will fall.

55. The monetary transmission mechanism describes the process by which changes in
- A. interest rates affect the demand for money and the supply of money.
 - B. business investment influence real GDP.
 - C. monetary equilibrium influence real GDP through changes in desired investment.
 - D. personal consumption affect real GDP through changes in disposable income.
 - E. monetary equilibrium influence the interest rate.
56. Which one of the following statements best describes the monetary transmission mechanism?
- A. An increase in personal consumption leads to an upward shift in the *AE* curve and thereby increases real GDP.
 - B. An increase in the money supply leads to a lower interest rate, higher desired investment, an upward shift in the *AE* curve and a higher GDP.
 - C. A decrease in imports causes the *AE* curve to shift upwards, leading to a higher interest rate.
 - D. A decrease in the money supply leads to a lower interest rate, higher desired investment, an upward shift in the *AE* curve and a higher GDP.
 - E. An increase in government spending causes the *AE* curve to shift upwards, leading to a higher GDP.
57. Based on the AS-AD model, which of the following statement is true about the trade-off that the monetary authority has to make in the short-run
- A. Regardless of the type of shock, inflation control will also bring the short-run output to the long-run level
 - B. When the economy is hit by a demand shock, inflation control comes with a trade-off that the short-run real output will be pushed away from the long-run real output.
 - C. When the economy is hit by a supply shock, inflation control comes with a trade-off that the short-run real output will be pushed away from the long-run real output.
58. In order to be considered "money," paper currency must be
- A. convertible into a precious metal.
 - B. generally acceptable as a medium of exchange.
 - C. impossible to counterfeit.
 - D. issued by a government agency.
 - E. issued by a chartered bank.

59. Other things being equal, a rise in the price level will
- A. have no effect on the value of money.
 - B. stabilize the value of money.
 - C. decrease the purchasing power of money.
 - D. increase the purchasing power of money.
 - E. increase the value of money.
60. There will be no gains from specialization and trade between two countries if
- 1) neither country has an absolute advantage in the production of any good;
 - 2) neither country has a comparative advantage in the production of any good;
 - 3) opportunity costs differ too much between the two countries.
- A. 1 only
 - B. 2 only
 - C. 3 only
 - D. 1 and 2
 - E. 2 and 3
61. Scarcity implies that choices must be made. Making choices implies
- A. that scarcity can be eliminated.
 - B. the wasteful use of resources.
 - C. the existence of costs of production.
 - D. the existence of opportunity costs.
 - E. both C and D above.
62. A point lying inside the production possibilities boundary is one at which
- A. there is no scarcity.
 - B. it is not possible to produce more output with existing resources.
 - C. more output could be produced with existing resources.
 - D. the economy has run out of resources.
 - E. the opportunity cost of producing more output is negative.
63. A straight-line production possibilities boundary differs from a concave boundary in which of the following ways?
- A. The straight-line boundary illustrates constant opportunity costs, whereas the concave boundary illustrates increasing opportunity costs.

- B. A straight-line boundary is associated with a command economy, whereas a concave boundary is associated with a free-market economy.
 - C. The straight-line boundary does not show scarcity, whereas the concave boundary does.
 - D. The straight-line boundary shows opportunity cost, whereas the concave boundary does not.
 - E. The concave boundary illustrates constant opportunity costs, whereas the straight-line boundary illustrates decreasing opportunity costs.
64. In command economies, economic behaviour is
- A. largely determined by a central authority.
 - B. based primarily on custom and habit.
 - C. directed by individual self-interest.
 - D. random and unpredictable.
 - E. largely affected by elements of tradition and market incentives.
65. Disagreements over positive statements
- A. cannot arise because positive statements are facts.
 - B. are basically devoid of any emotion.
 - C. arise from the failure to distinguish between a positive and a normative statement.
 - D. never occur.
 - E. are best handled by an appeal to the facts.
66. Consider the functional relationship between two variables, X and Y. If Y is an increasing function of X, then
- A. X remains constant as Y increases.
 - B. Y increases when X decreases.
 - C. Y decreases when X increases.
 - D. X decreases when Y increases.
 - E. Y increases when X increases.
67. Macroeconomics is mainly concerned with the study of
- A. fluctuations and trends in aggregated data.
 - B. large economic units such as General Motors or Molson Breweries.
 - C. governments and their intervention in individual markets.

- D. individual households and how they deal with problems like inflation and unemployment.
- E. fluctuations and trends in disaggregated data.

68. An example of a topic outside the scope of macroeconomics is

- A. changes in the unemployment rate.
- B. the aggregate growth rate of the economy.
- C. the level of productivity, as compared with that in the United States.
- D. changes in the price of a particular good in a specific market.
- E. the overall level of unemployment.

69. In macroeconomics, the term "national income" refers to

- A. only those sales of currently produced goods sold to other nations.
- B. the value of a nation's total wealth.
- C. all sales of both current production and used goods.
- D. total current spending by all households.
- E. the value of the income generated by the production of total output.

70. Which of the following is the best description of the business cycle?

- A. a ten-year period designed for national accounting purposes to capture the normal cycle of recession periods and boom periods
- B. a five-year period designed for national accounting purposes to capture the normal cycle of recession periods and boom periods
- C. the fluctuations of one country's national income in comparison to another country's national income
- D. the short-run fluctuations of national income around its trend value
- E. the normal cycle of profits and losses by producers in the economy

71. Which of the following correctly describes the meaning of the expression $Y > Y^*$?

- A. actual output is more than potential output - an inflationary gap
- B. potential output is more than actual output - a recessionary gap
- C. potential output is more than actual output - an inflationary gap
- D. actual output is more than potential output - a recessionary gap

72. Consider the equation: $AE = C + I + G + (X - IM)$. Which of the following statements correctly describes this sum?

- A. This summation tells us total desired expenditures on domestically produced output.
 - B. It is a summation of planned expenditures and is always equal to real GDP.
 - C. It is a summation of actual expenditures and is equivalent to GDP.
 - D. This summation of planned expenditures is equal to actual nominal GDP.
 - E. It is a summation of the desired expenditures of domestic households, firms and government.
73. If the marginal propensity to consume (*MPC*) is equal to 0.9, an increase in household income causes desired consumption expenditure to
- A. rise by the full increase in income.
 - B. fall, as an increase in income will increase saving.
 - C. remain constant, because the *MPC* is also constant.
 - D. rise by more than the increase in income.
 - E. rise by less than the full increase in income.
74. Suppose there is an increase in the marginal propensity to spend out of national income. The result will be
- A. a decrease in the slope of the *AE* curve.
 - B. a movement to the right along the *AE* curve.
 - C. an increase in the slope of the *AE* curve.
 - D. a parallel upward shift in the *AE* curve.
 - E. a movement to the left along the *AE* curve.
75. Consider the following news headline: "Increase in consumer confidence leads to increase in spending". Which of the following correctly describes the likely effect in our simple macro model?
- A. The consumption function shifts downward.
 - B. The consumption function gets flatter.
 - C. The *AE* function shifts upward.
 - D. The consumption function shifts upward.
 - E. Both C and D are correct.
76. In a simple macro model with demand-determined output, the simple multiplier is equal to $1/(1-z)$, where *z* equals the
- A. marginal propensity not to spend.

- B. average propensity not to spend.
- C. level of autonomous expenditure.
- D. marginal propensity to spend.
- E. average propensity to spend.

77. Consider a simple macro model with demand-determined output. In such a model, the multiplier is larger, the

- A. higher the level of autonomous expenditures.
- B. flatter is the AE function.
- C. steeper is the AE function.
- D. lower the level of autonomous expenditures.
- E. lower the APC .

78. Consider the simplest macro model with demand-determined output. Suppose an increase in business confidence leads firms to increase investment in new equipment by \$100 million. The marginal propensity to spend in this economy is 0.75. What is the eventual total new expenditure in this economy due to the increase in investment?

- A. \$500 million
- B. \$100 million
- C. \$400 million
- D. \$25 million
- E. \$75 million

79. Consider a simple macro model with a constant price level and demand-determined output. If the marginal propensity to spend is 0.9, the simple multiplier is

- A. 0.9.
- B. 0.1.
- C. 1.0.
- D. 1.1.
- E. 10.0.

80. Other things being equal, what is the effect of an exogenous rise in the domestic price level? There will be

- A. no effect on the level of desired real expenditure.
- B. a decrease in desired real expenditure because it will affect the real value of wealth.
- C. a decrease in desired real expenditure only if it is accompanied by a change in the current income of households.

- D. an increase in net exports.
 - E. an increase in the level of desired real expenditure.
81. In a macro model with a constant price level, an increase in government purchases 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 right.
 - D. upward and the AD curve to shift to the left.
 - E. downward and a movement to the right along the AD curve.
82. Aggregate supply refers to the
- A. economy's potential output at each possible labour force.
 - B. supply of labour inputs in the economy.
 - C. decisions of firms to decrease inputs in order to produce outputs.
 - D. total output of goods and services that firms would like to produce and sell.
 - E. effects of increases in input prices on output.
83. In macroeconomic analysis, the assumption that potential output (Y^*) is changing is a characteristic of
- A. the business cycle model.
 - B. the national accounts model.
 - C. the short run.
 - D. the adjustment process.
 - E. the long run.
84. An inflationary output gap implies that
- A. there is a pressure for wages to decrease.
 - B. the economy's resources are being used beyond their normal capacity.
 - C. the demand for all factor services will be relatively low.
 - D. there is excess supply of most factors of production.
 - E. the intersection of AD and AS occurs at real GDP below potential output.
85. Consider an economy with a relatively steep AS curve. If the AD curve shifts to the left, then the price level will _____ and national output will _____.
- A. fall sharply; will not change.
 - B. fall sharply; decrease slightly.
 - C. increase slightly; significantly increase

- D. increase sharply; increase slightly
 - E. increase slightly; significantly decrease
86. What is a commercial bank's *actual* reserve ratio?
- A. The ratio of Canadian dollars to foreign currencies that it holds on its books.
 - B. The fraction of its deposit liabilities that it actually holds as reserves, either as cash or as deposits with the Bank of Canada.
 - C. The fraction of its deposit liabilities that it actually holds as gold, other precious metal or cash in its own vaults.
 - D. The ratio of chequable deposits to term deposits that it holds on its books.
 - E. The fraction of its deposit liabilities that are backed by gold.
87. The supply for some good or service will decrease if
- A. the prices of inputs fall.
 - B. technology improves.
 - C. more suppliers enter the industry.
 - D. technology improves and the price of inputs falls.
 - E. the prices of inputs increase.
88. A fall in the price of potatoes, which are used in the production of french fries, will
- A. lead to a decrease in the demand for french fries.
 - B. have no effect on the supply of french fries but cause a movement along the supply curve of french fries.
 - C. have no effect on the supply of french fries.
 - D. lead to a decrease in the supply of french fries, causing the supply curve of french fries to shift to the left.
 - E. lead to an increase in the supply of french fries, causing the supply curve of french fries to shift to the right.
89. If a demand curve and a supply curve can be stated functionally as $Q_D = 100 - 5p$; and $Q_S = 90 + 5p$, respectively, then the equilibrium quantity and price would be
- A. $Q = 190$; $p = 1$.
 - B. $Q = 95$; $p = 10$.
 - C. $Q = 95$; $p = 1$.
 - D. $Q = 1$; $p = 95$.
 - E. $Q = 190$; $p = 10$.
90. If Country A has a comparative advantage in the production of oil relative to Country B, then
- A. Country A also has an absolute advantage in producing oil.

- B. the opportunity cost of producing oil is lower in Country A than in Country B.
- C. Country A also has an absolute advantage in producing some good other than oil.
- D. Country A when compared to Country B must have an absolute advantage in producing some good other than oil.
- E. the opportunity cost of producing oil is higher in Country A than in Country B

91. When we study the *adjustment process* in macroeconomics, what assumption are we making about potential output, Y^* ?

- A. Potential output is adjusting to changes in factor prices.
- B. Potential output is not relevant to the analysis of the adjustment process.
- C. Potential output is constant.
- D. Potential output is adjusting to changes in factor supplies.
- E. Potential output is adjusting to changes in technology.

92. Which of the following is a defining assumption of the AD/AS macro model in the short run?

- A. The level of potential output fluctuates with the price level.
- B. Factor supplies are assumed to be flexible.
- C. Firms cannot operate near their normal capacity.
- D. Factor prices are assumed to be exogenous.
- E. Technology used in production is endogenous and variable.

93. Economics can best be described as

- A. the study of how to reduce inflation and unemployment
- B. the study of the use of scarce resources to satisfy unlimited human wants.
- C. the application of sophisticated mathematical models to address social problems
- D. the study of how a society *ought* to allocate its resources
- E. a normative science.

94. If the Bank of Canada were to increase the money supply, other things being equal, we would expect the aggregate expenditure curve to shift

- A. downward and the aggregate demand curve to shift to the left.
- B. downward but the aggregate demand curve will remain unchanged.
- C. downward and the aggregate demand curve to shift to the right.
- D. upward and the aggregate demand curve to shift to the right.
- E. upward and the aggregate demand curve to shift to the left.

95. Consider the strength of monetary forces in the economy. Other things being equal, the steeper the AS curve, the
- A. less sensitive the aggregate expenditure function to changes in the interest rate.
 - B. larger the impact on the price level from any given increase in the money supply.
 - C. smaller the impact on the price level from any given increase in the money supply.
 - D. more sensitive the aggregate expenditure function to changes in the interest rate.
 - E. larger the impact on real output from any given increase in the money supply.
96. Suppose that there are two countries: Wonderland and Opulenza. Both countries are closed and there is no government. The autonomous consumption and investment in two economies are identical. The marginal propensity to consume of Wonderland's economy is larger than Opulenza's economy. Which of the following statement is true
- A. The equilibrium GDP of Wonderland is smaller than Opulenza
 - B. The equilibrium GDP of Wonderland is equal to Opulenza
 - C. We do not have enough information to compare the equilibrium GDP of two countries
 - D. The equilibrium GDP of Wonderland is larger than Opulenza
97. Suppose that Wonderland is a closed economy with a government that collects labour taxes and spends on goods and services.

Now, the government of Wonderland decides to increase the labour tax rate by 10% in order to pay off the government debt. Holding other things equal, which of the following statement is true

- A. The equilibrium GDP will decrease as a result of the increase in tax
 - B. The impact of such increase in tax is ambiguous
 - C. The equilibrium GDP will stay the same as a result of the increase in tax
 - D. The equilibrium GDP will increase as a result of the increase in tax
98. Which of the following variables are unlikely related to the study of macroeconomics
- A. Inflation
 - B. Auction design
 - C. National income (GDP)
 - D. Unemployment rate

99. Suppose that the market for milk can be described a simple demand-supply model. Now, suppose that due to the COVID-19, restaurants have to shutdown and stop buying milk. What will happen to the equilibrium price of milk?
- A. Increase
 - B. Ambiguous
 - C. Decrease
 - D. Stay the same
100. John makes the following fiscal policy recommendation: "The government should always increase government spending and decrease taxes. That way, the aggregate demand will shift to the right, and the output will increase both in the short-run and long-run".
- Based on the AS-AD model, which of the following statement is true regarding John's recommendation:
- A. John is correct. If the aggregate demand increases, both the short-run and long-run output will increase.
 - B. John is incorrect. If the aggregate demand increases, output in the short-run will increase but long-run output will stay the same because of the adjustment process of the short-run AS curve.
 - C. We cannot say whether John is correct or incorrect. It depends on the shape of the long-run AS curve
101. Holding other things equal, what will happen to the price of a zero-coupon bond if the market interest rate increases?
- A. Uncertain
 - B. Increase
 - C. Decrease
 - D. Stay the same
102. The long-run growth theory predicts that the long-run equilibrium output is independent of aggregate demand. This statement is:
- A. False
 - B. True
 - C. Uncertain
103. Consider a short-run AS-AD model. Which of the following factors will shift the aggregate demand curve to the right.

- A. A decrease in consumer confidence that causes people to spend less money on goods and services.
- B. An increase in import due to people demanding more foreign goods.
- C. An increase in investment spending due to investors being optimistic about the future.
- D. A decrease in export due to an international trade barrier

104. According to the Neo-classical growth theory, which of the following factors does NOT drive economic growth

- A. Price level
- B. Labour force
- C. Physical capital
- D. Technological change

105. Wonderland is an open economy that exports lots of goods to Ocataria. This year, due to a pandemic, Ocataria cannot afford to buy goods from Wonderland anymore. Using the AS-AD framework, what will happen to the *short-run equilibrium* of Wonderland?

- A. Equilibrium price level will increase and short-run output will increase
- B. Equilibrium price level will decrease and short-run output will increase
- C. Equilibrium price level will increase and short-run output will decrease
- D. Equilibrium price level will decrease and short-run output will decrease

106. Suppose that Wonderland is an open economy with no government. Furthermore, suppose that the import function takes the following form: $IM = mY$, where m is the marginal propensity to import. The consumption function is: $C = a + bY$, where b is the marginal propensity to consume. The multiplier of Wonderland is the largest when:

- A. c is high and m is low
- B. c is high and m is high
- C. c is low and m is low
- D. c is low and m is high

107. Consider butter and margarine, which are substitutes. When the price of butter falls, the demand curve for margarine is likely to

- A. remain stationary.
- B. shift to the left.
- C. shift to the right.
- D. remain stationary, although its price will fall.

E. remain stationary, although its price will rise.

108. If tastes change so that a particular style of winter boots is now considered more appealing, the likely result is

- A. no change in the demand curve.
- B. a shift in the demand curve to the left.
- C. a shift in the demand curve to the right.
- D. a movement down the demand curve.
- E. a movement up the demand curve.

109. The opportunity cost of going to college or university for four years is

- A. equal to the wage rate a person will earn after graduation.
- B. the cost of tuition, residence fees and books.
- C. zero.
- D. the cost of tuition and books and four years of lost wages from employment.
- E. the least valued alternative one forfeits to attend.

110. During economic recessions, the opportunity cost of going to university _____ because the wages a student can expect to earn working in the best alternative _____.

- A. increases; decrease
- B. decreases; increase
- C. decreases; decrease
- D. remains the same; remain the same
- E. increases; increase

111. The key decision makers in a market economy are

- A. governments and all institutions under government control.
- B. individuals, non-profit organizations, and the Bank of Canada.
- C. corporations and governments.
- D. large corporations and labour organizations.
- E. individuals, firms, and government.

112. With regard to various economic systems, most economists agree that

- A. the mix of market and command principles that exists in Canada is the best.
- B. command economies have been very successful in distributing income in socially just ways.

- C. most production and consumption decisions are more efficiently coordinated by markets than through central planning.
 - D. government intervention in the economy is only justified in time of war.
 - E. the optimal mix of market and command systems remains constant over time.
113. Consider the net tax rate, denoted by t . Which of the following correctly defines the net tax rate?
- A. It is total tax revenue minus transfer payments.
 - B. It is the sum of all government tax revenues.
 - C. It is the increase in net tax revenue when national income rises by one dollar.
 - D. It is the sum of the federal income tax rate plus an average of provincial income tax rates.
 - E. Both A and C are correct.
114. 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. $AE = C + I - G - (X + IM)$.
115. In a simple macro model with a constant price level, a decrease in the net tax rate causes the AE curve to
- A. rotate upward.
 - B. rotate downward.
 - C. shift parallel upward.
 - D. shift parallel downward.
 - E. remain stationary.
116. A decrease in the value of the simple multiplier can be caused by
- A. a decrease in the net tax rate.
 - B. a decrease in the marginal propensity to import.
 - C. an increase in the marginal propensity to consume.
 - D. an increase in the marginal propensity to save.
 - E. an increase in the marginal propensity to spend.
117. 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. 0.80.
- B. 0.64.
- C. 0.36.
- D. 0.90.
- E. 1.00.

118. If the *AS* curve is vertical and there is a decrease in aggregate demand, the result is

- A. an equal decrease in national income.
- B. an increase in national income.
- C. a decrease in the price level with no change in real GDP.
- D. an increase in the price level.
- E. no change in either price level or real GDP

119. Which of the following will cause a negative aggregate demand shock?

- A. an increase in tax rates
- B. an increase in the domestic price level
- C. an increase in government expenditures
- D. a decrease in the domestic price level
- E. an increase in the price of raw materials

120. Which of the following represents a positive aggregate supply shock?

- A. a general labour strike across the country
- B. an outbreak of war among oil-exporting countries
- C. improved computer literacy for the typical worker
- D. bad weather which cripples telecommunications for one month
- E. an increase in exports