

**ECONOMICS 1BB3  
Introductory Macroeconomics  
Sections C01, C02**

**Term Test #1**

This examination paper includes 12 pages including the title page and 43 questions. You are responsible for ensuring that your copy of the paper is complete. Please bring any discrepancy to the attention of your invigilator.

**Special Instructions:**

Only the McMaster Standard (Casio - FX991) Calculator may be used. This test paper must be returned along with the scan sheet. Write your name and student number on the test paper and the scan sheet. If you are writing in the wrong room, you will lose 5 points off your test score. If you are wearing a baseball cap, please turn it so the peak is in the back. Please turn off all cell phones. There should be no electronic devices at your seat other than a calculator. All books and bags must be left at the front of the room. You will need your student ID card at your desk, along with your calculator, a pencil, and a pen. If you complete the short answer section in pencil your test will not be re-graded if there is a dispute. Use an HB pencil to fill in the scan sheet. If a TA has to grade your scan sheet by hand, you will lose 5 points off your test score. You cannot fill in the version number of your test paper on the scan sheet.

**Part A: Multiple Choice Questions:** There are 40 multiple choice questions. Please record your answers on the scan answer sheet provided.

**Part B: Short Answer Questions:** There are 3 short answer questions. Please record your answers on the test paper.

<b>Part A – Multiple Choice</b>	<b>/40</b>
<b>Part B – Short Answer</b>	<b>/15</b>
<b>Total</b>	<b>/55</b>

## OMR EXAMINATION - STUDENT INSTRUCTIONS

**NOTE: IT IS YOUR RESPONSIBILITY TO ENSURE THAT THE ANSWER SHEET IS PROPERLY COMPLETED: YOUR EXAMINATION RESULT DEPENDS UPON PROPER ATTENTION TO THESE INSTRUCTIONS.**

The scanner, which reads the sheets, senses the shaded areas by their non-reflection of light. A heavy mark must be made, completely filling the circular bubble, with a HB pencil. Marks made with a pen or felt-tip marker will **NOT** be sensed. Erasures must be through or the scanner may still sense a mark. Do **NOT** use correction fluid on the sheets. Do **NOT** put any unnecessary marks or writing on the sheets.

1. Print your name, student number, course name, section number and the date in the space provided at the top of Side 1 (red side) of the form.
2. Mark your student number in the space provided on the sheet on Side 1 and fill in the corresponding bubbles underneath.
3. Mark only ONE choice from the alternatives (1,2,3,4,5, or A,B,C,D,E) provided for each question. If there is a True/False question, enter response of 1 (or A) as True, and 2 (or B) as False. The question number is to the left of the bubbles. Make sure that the number of the question on the scan sheet is the same as the question number on the test paper.
4. Pay particular attention to the Marking Directions on the form.
5. Begin answering questions using the first set of bubbles, marked "1".

**Part A - Multiple Choice (40 points)**

*Identify the choice that best completes the statement or answers the question. Answer on the scan sheet provided.*

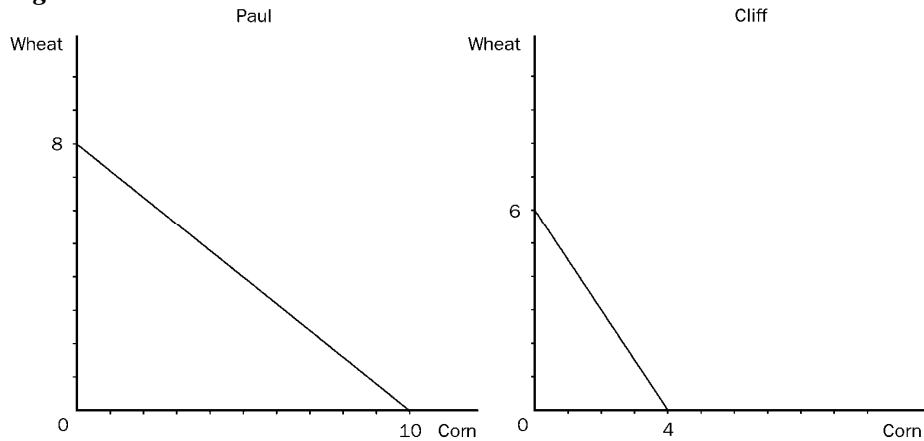
1. Suppose that lawn mowers are part of the market basket used to compute the CPI. Then suppose that the quality of lawn mowers improves while the price of lawn mowers stays the same. If Statistics Canada precisely adjusts the CPI for the improvement in quality, then, other things equal,
  - a. the CPI will rise.
  - b. the CPI will fall.
  - c. the CPI will stay the same.
  - d. lawn mowers will no longer be included in the market basket.
2. If a decrease in income increases the demand for a good, then the good is
  - a. an inferior good.
  - b. a Fisher good.
  - c. a normal good.
  - d. a complement good.
  - e. a substitute good.
3. Unemployment compensation is
  - a. not part of GDP because the payments reduce business profits.
  - b. not part of GDP because it is a transfer payment.
  - c. part of GDP because the recipients must have worked in the past to qualify.
  - d. part of GDP because it represents income.
4. Macroeconomics is the study of
  - a. economy-wide phenomena.
  - b. how firms maximize profit.
  - c. individual decisionmakers.
  - d. economic history.
5. In computing GDP, investment is spending on
  - a. capital equipment, inventories, and structures, excluding household purchases of new housing.
  - b. stocks, bonds, and other financial assets.
  - c. new capital equipment, inventories, and structures, including new housing.
  - d. real estate and financial assets.

**Table 5-3**

## Prices and Quantities

Year	Price of Burgers	Quantity of Burgers	Price of Magazines	Quantity of Magazines
2006	\$4.00	100	\$2.00	180
2007	\$5.00	120	\$2.50	200
2008	\$6.00	150	\$3.50	200

6. **Refer to Table 5-3.** Using 2006 as the base year for 2007,
- real GDP is \$880 and the GDP deflator is 80.
  - real GDP is \$950 and the GDP deflator is 116.
  - real GDP is \$950 and the GDP deflator is 95.
  - real GDP is \$880 and the GDP deflator is 125
  - real GDP is \$880 and the GDP deflator is 95
7. The word that comes from the Greek word for "one who manages a household" is
- producer.
  - economy.
  - home economics.
  - consumer.
  - market.

**Figure 3-1**

8. **Refer to Figure 3-1.** Assume that Cliff and Paul were both producing wheat and corn, and each were dividing their time equally between the two. Then they decide to specialize in the product they have a comparative advantage in. As a result, total production of corn would
- decrease by 2 bushels.
  - increase by 3 bushels.
  - increase by 5 bushels.
  - increase by 1 bushel.

9. **Refer to Figure 3-1.** If Paul divides his time equally between corn and wheat, he will be able to produce
  - a. 2 bushels of wheat and 2 bushels of corn.
  - b. 4 bushels of wheat and 5 bushels of corn.
  - c. 3 bushels of wheat and 3 bushels of corn.
  - d. 4 bushels of wheat and 6 bushels of corn.
10. **Refer to Figure 3-1.** The opportunity cost of 1 bushel of wheat for Cliff is
  - a.  $\frac{2}{3}$  bushel of corn.
  - b.  $\frac{3}{2}$  bushels of corn.
  - c.  $\frac{1}{3}$  bushel of corn.
  - d. 1 bushel of corn.
11. **Refer to Figure 3-1.** Assume that both Paul and Cliff divide their time equally between the production of corn and wheat, and they do not trade. If they were the only producers of corn and wheat, then total production of wheat and corn would be
  - a. 7 bushels of wheat and 7 bushels of corn.
  - b. 6 bushels of wheat and 8 bushels of corn.
  - c. 7 bushels of wheat and 6 bushels of corn.
  - d. 8 bushels of wheat and 7 bushels of corn.
12. A movement along the supply curve might be caused by a change in
  - a. input prices.
  - b. technology.
  - c. the price of the good or service.
  - d. expectations about future prices.
  - e. tastes.

Use the table below to answer the following questions.

**Table 24-2**

year	price of pork	price of corn
2005	\$20	\$12
2006	\$25	\$18

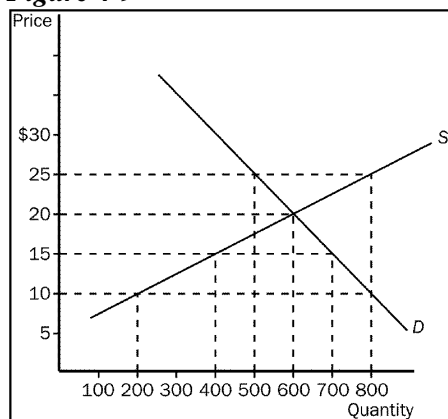
13. **Refer to Table 24-2.** Suppose that the basket of goods in the CPI consisted of 3 units of pork and 4 units of corn. What is the consumer price index for 2006 if the base year is 2005?
  - a. 73.47
  - b. 150
  - c. 120
  - d. 109.22
  - e. 136.11
14. Generally, the market for ice cream would be considered
  - a. a competitive market.
  - b. more organized than an auction.
  - c. a market where individual sellers have significant pricing power.
  - d. a monopolistic market.
  - e. None of the above are correct.

15. The price index in the first year is 125, in the second year is 150, and in the third year is 200. What is the inflation rate between the first and second year and between the second and third year?
- 25 percent between the first and second year, 75 percent between the second and third year
  - 20 percent between the first and second year, 33 percent between the second and third year
  - 25 percent between the first and second year, 50 percent between the second and third year
  - 50 percent between the first and second year, 100 percent between the second and third year
  - None of the above is correct.
16. In a free market, who determines how much of a good will be sold and the price at which it is sold?
- demanders
  - suppliers and demanders together
  - the government
  - suppliers
17. Jake loaned Elwood \$6,000 for one year at a nominal interest rate of 12 percent. After Elwood repaid the loan in full, Jake complained that he could buy 5 percent fewer goods with the money Elwood gave him than he could before he loaned Elwood the \$6,000. From this we can conclude that the rate of inflation during the year was
- 17 percent
  - 2.5 percent.
  - 14 percent.
  - 7 percent.
  - 8 percent.
18. By scientific method we mean
- the dispassionate development and testing of theories about how the world works.
  - the use of modern electronic testing equipment to understand the world.
  - the use of controlled experiments in understanding the way the world works.
  - finding evidence to support preconceived theories about how the world works.
  - Both a and b are correct.
19. Suppose that a worker in Radioland can produce either 4 radios or 1 television per year, and a worker in Teeveeland can produce either 2 radios or 4 televisions per year. Each nation has 100 workers. Also suppose that each country completely specializes in producing the good for which it has a comparative advantage. If Radioland trades 100 radios to Teeveeland in exchange for 100 televisions each year, then each country's maximum consumption of new radios and televisions per year will be
- 400 televisions and 100 radios in Teeveeland and 400 radios and 100 televisions in Radioland.
  - 300 televisions and 100 radios in Radioland and 300 radios and 100 televisions in Teeveeland.
  - 300 televisions and 100 radios in Teeveeland and 300 radios and 100 televisions in Radioland.
  - 100 televisions and 200 radios in Radioland and 100 radios and 200 televisions in Teeveeland.

20. The circular-flow diagram is a
- model that shows the effects of government on the economy.
  - visual model of the relationship among money, prices, and businesses.
  - visual model of how the economy is organized.
  - mathematical model of how the economy works.
21. The adage, "There is no such thing as a free lunch," is used to illustrate the concept of
- efficiency.
  - scarcity.
  - tradeoffs.
  - productivity.
  - economic profit.
22. Suppose a gardener produces both green beans and corn in her garden. If she must give up 13 bushels of corn to get 5 bushels of green beans, then the opportunity cost of 1 bushel of green beans is
- 8 bushels of corn.
  - 18 bushels of corn.
  - 0.38 bushel of corn.
  - 2.6 bushels of corn.
23. When the government implements programs such as progressive income tax rates, which of the following is likely to occur?
- Equity is increased and efficiency is increased.
  - Equity is decreased and efficiency is decreased.
  - Equity is decreased and efficiency is increased.
  - Equity is increased and efficiency is decreased.
24. If a small country has current nominal GDP of \$20 billion and a GDP deflator of 50, what is its real GDP?
- \$100 billion
  - \$40 billion
  - \$10 billion
  - \$4 billion
25. Suppose an economy produces two goods, food and machines. This economy always operates on its production possibilities frontier. Last year, it produced 50 units of food and 30 machines. This year, it is producing 55 units of food and 33 machines. Which of the following would *not* explain the increase in output?
- an increase in the labour force
  - an improvement in technology
  - a reduction in unemployment
  - All of the above are correct.
26. The price index is 320 in one year and 360 in the next. What was the inflation rate?
- 6.7 percent
  - 11.1 percent
  - 12.5 percent
  - 8 percent

27. A production possibilities frontier will be linear and not bowed out if
  - a. the tradeoff between the two goods is always at a decreasing rate.
  - b. unemployment is zero.
  - c. resources are allocated efficiently.
  - d. the tradeoff between the two goods is always at a constant rate.
  - e. no tradeoffs exist.
28. Recessions are associated with which of the following?
  - a. increased bankruptcies
  - b. falling profits
  - c. falling output
  - d. All of the above are correct.
29. Which of the following headlines would be more closely related to what microeconomists study than what macroeconomists study?
  - a. Unemployment rate rises from 5 percent to 5.5 percent.
  - b. The price of oranges rises after an early frost.
  - c. Real GDP grows by 3.1 percent in the third quarter.
  - d. Retail sales at stores show large gains.

**Figure 4-9**



30. **Refer to Figure 4-9.** If price is \$25, quantity demanded would be
  - a. 800.
  - b. 500.
  - c. 400.
  - d. 600.
31. If in a given year an economy has consumption of \$4000, investment of \$2000, government purchases of \$1500, exports of \$500, imports of \$600, taxes of \$1200, transfer payments of \$400, and depreciation of \$300, then GDP will equal
  - a. \$7400.
  - b. \$9500.
  - c. \$7600.
  - d. \$6400.
  - e. \$8900.



32. Suppose that the incomes of buyers in a particular market for a normal good increase and there is also a reduction in input prices. What would we expect to occur in this market?
- The equilibrium price would increase, but the impact on the amount sold in the market would be ambiguous.
  - Both equilibrium price and equilibrium quantity would increase.
  - The equilibrium price would decrease, but the impact on the amount sold in the market would be ambiguous.
  - Equilibrium quantity would increase, but the impact on equilibrium price would be ambiguous.
  - None of the above is correct.
33. An important difference between the GDP deflator and the consumer price index is that
- the GDP deflator reflects the prices of all goods and services bought by producers and consumers, whereas the consumer price index reflects the prices of final goods and services bought by consumers.
  - the GDP deflator reflects the prices of all final goods and services produced domestically, whereas the consumer price index reflects the prices of some goods and services bought by consumers.
  - the GDP deflator reflects the prices of all final goods and services produced by a nation's citizens, whereas the consumer price index reflects the prices of final goods and services bought by consumers.
  - the GDP deflator reflects the prices of goods and services bought by producers, whereas the consumer price index reflects the prices of goods and services bought by consumers.
34. A market supply curve is determined by
- finding the average quantity supplied of the market's individual supply curves.
  - horizontally summing individual supply curves.
  - Unlike market demand, there is no such thing as a market supply curve.
  - vertically summing individual supply curves.
35. The 2002 CPI was 177 and the 1982 CPI was 96.5. If your parents put aside \$1,000 for you in 1982, how much would you have needed in 2002 in order to buy what you could have with the \$1,000 in 1982?
- \$1,777.77
  - \$1,714.81
  - \$1,834.20
  - None of the above are correct.
36. Which of the following is counted in GDP?
- the value of illegally produced goods and services
  - the estimated value of housework
  - the value of newly issued stocks and bonds
  - None of the above are correct.

37. Government purchases include spending on goods and services by
- provincial and federal governments only.
  - the federal government only.
  - local and provincial governments, but not the federal government.
  - local, provincial and federal governments.
38. If increases in the prices of Canadian medical care cause the CPI to increase by 2 percent, the GDP deflator will likely increase by
- 2 percent.
  - less than 2 percent.
  - more than 2 percent.
  - All of the above are correct.
39. The consumer price index is used to
- monitor changes in the cost of living.
  - track changes in the level of wholesale prices in the economy.
  - track changes in the stock market.
  - monitor changes in the level of real GDP.
40. A marginal change is a
- change for the worse, and so is usually short-term.
  - long-term trend.
  - small incremental adjustment.
  - large, significant adjustment.

**Part B - Short Answer (15 points)**

*Answer on the test paper. Please keep your answers brief.*

1. In the following cases, explain what will happen to the GDP deflator and the CPI in Canada. **(3 points)**

a) The price of pineapples rises.

b) The price of Toyota Corolla's (a mid-sized family car built in Canada) falls.

c) The price of Bombardier jets built in Quebec rises.

2. Identify the immediate effect of each of the following circumstances on Canadian GDP and its components. (Recall:  $Y = C + I + G + NX$ ) **(6 points)**

a) James receives some pension benefits.

b) John buys an Italian sports car.

c) Henry buys domestically produced tools for his construction company.

3. Mozerella cheese is a key ingredient in pizza. For each part below, draw a market diagram and state what will happen to equilibrium price and quantity.
- a) If the price of mozerella cheese rises, what will happen in the market for pizza? **(2 points)**
- b) Given your answer to part (a), what will happen in the market for hamburgers? **(2 points)**
- c) Given your answer to part (b), what will happen in the market for ketchup? (Assume that many people put ketchup on their hamburgers) **(2 points)**