Econ102 Sample Exam Questions for Chapter 27, 28, 29 and 30

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1. The multiplier shows that as ________ expenditure changes, real GDP changes by ________ amount.
   A) autonomous; an even larger
   B) autonomous; the same
   C) induced; an even larger
   D) induced; the same
   E) induced; a smaller

2. The marginal propensity to consume is the
   A) total amount of consumption divided by the total amount of disposable income.
   B) fraction of the first dollar of disposable income received that is saved.
   C) fraction of a change in disposable income that is spent on consumption.
   D) fraction of the last dollar of disposable income received that is saved.
   E) fraction of the first dollar of disposable income received that is consumed.

3. The marginal propensity to consume is calculated as
   A) consumption expenditure divided by the change in disposable income.
   B) the change in consumption expenditure divided by disposable income.
   C) the change in consumption expenditure divided by the change in disposable income.
   D) consumption expenditure divided by total disposable income.
   E) the change in consumption expenditure divided by saving.

4. The sum of the marginal propensity to save and the marginal propensity to consume
   A) sometimes equals 1.
   B) never equals 1.
   C) always equals 1.
   D) always equals 0.
   E) is greater than zero but less than 1.

Use the figure below to answer the following questions.

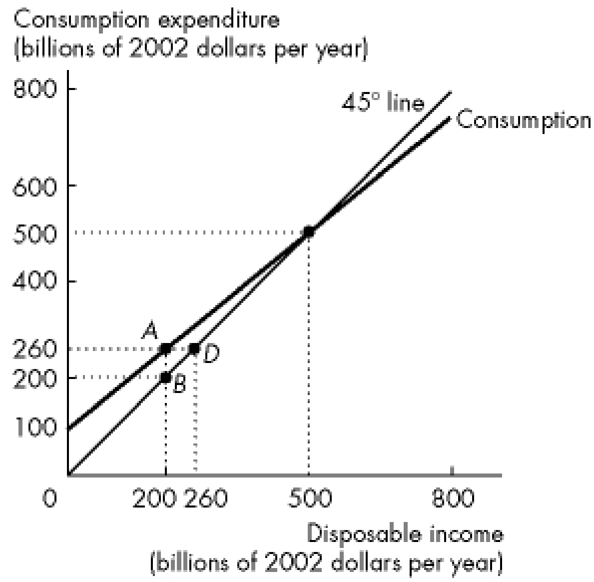

Figure 27.1.1

This figure describes the relationship between consumption expenditure and disposable income for a model economy.

5. Refer to Figure 27.1.1. Consumption and disposable income are equal
   A) when disposable income is $500 billion.
   B) when saving equals $40 billion and disposable income equals $540 billion.
   C) at all points along the consumption function.
   D) when disposable income is $600 billion.
   E) when disposable income is greater than or equal to $500 billion.

6. The slope of the consumption function is
   A) one.
   B) greater than the slope of the 45° line.
   C) equal to the slope of the 45° line.
   D) less than the slope of the 45° line.
   E) zero.

Use the figure below to answer the following questions.

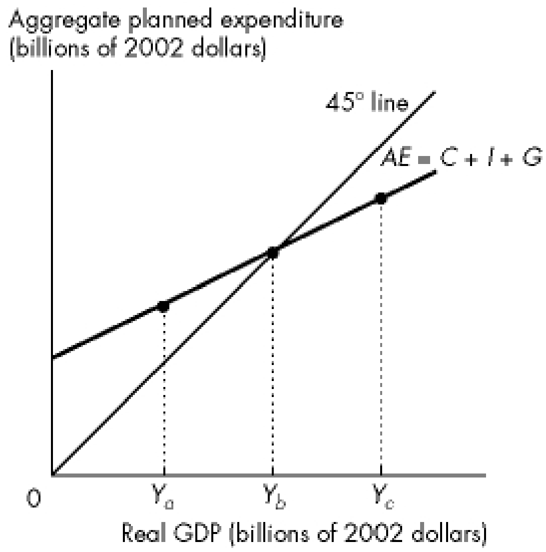

Figure 27.2.1

There are no exports or imports in this economy.

7. Refer to Figure 27.2.1. When real GDP is equal to Y_b, then aggregate planned expenditure is
   A) greater than real GDP and real GDP decreases.
   B) equal to real GDP and real GDP neither increases nor decreases.
   C) less than real GDP and real GDP increases.
   D) greater than real GDP and real GDP increases.
   E) less than real GDP and real GDP decreases.

8. If the marginal propensity to consume is 0.85, what change in consumption expenditure would you expect if disposable income increases by $200 million?
   A) $1,800 million
   B) $180 million
   C) $18 million
   D) $20 million
   E) $170 million

Use the figure below to answer the following questions.

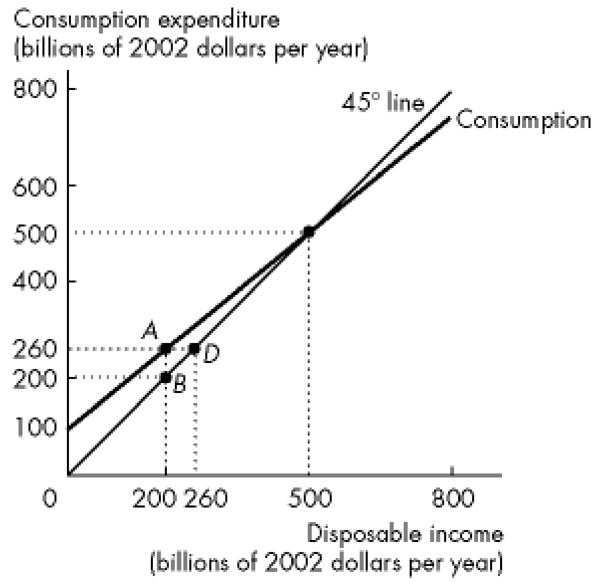

Figure 27.1.1

This figure describes the relationship between consumption expenditure and disposable income for a model economy.

9. Refer to Figure 27.1.1. When disposable income is equal to $200 billion, saving is
   A) $150 billion.
   B) - $60 billion.
   C) $200 billion.
   D) zero.
   E) $60 billion.

Use the table below to answer the following question.

Table 27.1.1

The following table shows the relationship between consumption expenditure (*C*) and disposable income (*YD*) for a hypothetical economy.

YD (dollars)	*C* (dollars)
100	225
200	300
300	375
400	450
500	525
600	600

10. Refer to Table 27.1.1. The marginal propensity to save is
   A) 4.
   B) decreasing as *YD* increases.
   C) equal to zero when *YD* equals $600.
   D) 0.75.
   E) 0.25.

11. Which of the following events would shift the consumption function upward?
    A) an increase in wealth
    B) an increase in disposable income
    C) a decrease in disposable income
    D) a decrease in expected future disposable income
    E) a decrease in wealth

12. Everything else remaining the same, a decrease in expected future income ________ current consumption expenditure and ________ saving.
    A) decreases; increases
    B) increases; increases
    C) decreases; decreases
    D) does not change; does not change
    E) increases; decreases

13. An increase in autonomous consumption
    A) shifts the consumption function upward.
    B) shifts the consumption function downward.
    C) creates a movement upward along the consumption function.
    D) changes the slope of the consumption function.
    E) creates a movement downward along the consumption function.

14. If aggregate planned expenditure exceeds real GDP, then inventories
    A) increase and real GDP increases.
    B) increase and real GDP falls.
    C) decrease and real GDP decreases.
    D) remain constant and real GDP remains constant.
    E) decrease and real GDP increases.

Use the figure below to answer the following questions.

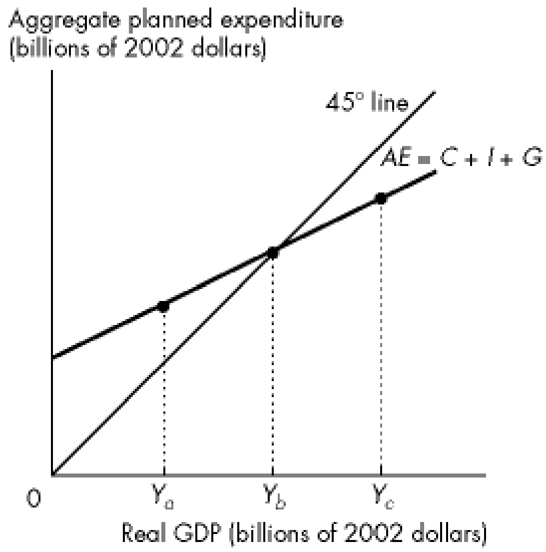

Figure 27.2.1

There are no exports or imports in this economy.

15. Refer to Figure 27.2.1. When real GDP is equal to Y_C, then
    - A) planned expenditure is equal to actual expenditure.
    - B) real GDP increases.
    - C) actual expenditure is greater than planned expenditure.
    - D) the economy is in equilibrium.
    - E) actual expenditure is less than planned expenditure.

16. As real GDP increases
    - A) imports decrease.
    - B) exports increase.
    - C) autonomous consumption increases.
    - D) imports increase.
    - E) planned investment increases.

17. Everything else remaining the same, which one of the following would increase equilibrium real GDP?
    - A) an increase in exports
    - B) an increase in saving
    - C) a decrease in exports
    - D) a decrease in investment
    - E) an increase in taxes

18. As the aggregate expenditure curve becomes steeper, the value of the multiplier becomes
    - A) larger.
    - B) equal to the marginal propensity to save.
    - C) smaller.
    - D) negative.
    - E) greater than 1.

19. The formula for the multiplier in an open economy is
   A) 1/(1 + slope of the *AE* curve).
   B) 1/(1 - slope of the *AE* curve).
   C) 1/(1 + marginal propensity to import).
   D) 1/(1 - marginal propensity to import).
   E) 1/(1 - *MPC*).

20. Suppose there is an increase in exports. Assuming the price level is held constant, which one of the following best describes the sequence of changes in the economy?
   A) Induced expenditure increases, autonomous expenditure increases, real GDP increases, and consumption increases.
   B) Autonomous expenditure increases, real GDP increases, induced expenditure increases, real GDP increases more, induced expenditure increases again, and the process continues until equilibrium expenditure is reached.
   C) Autonomous expenditure increases, induced expenditure increases, real GDP increases, and the price level rises.
   D) Induced expenditure increases, real GDP increases, autonomous expenditure increases, and the price level increases, lowering autonomous expenditure and real GDP increases by a smaller amount.
   E) Induced expenditure increases, real GDP increases, autonomous expenditure increases, real GDP increases more, autonomous expenditure increases again, etc.

21. The multiplier can take on any value
   A) only greater than 1.
   B) only between -1 and 1.
   C) only between 1 and 2.
   D) only between zero and 1.
   E) greater than zero.

22. In real business cycle theory, the supply of labour
   A) decreases if the real interest rate rises.
   B) decreases if the real wage rate decreases.
   C) is independent of the real interest rate.
   D) increases if the nominal interest rate rises.
   E) decreases if the real interest rate falls.

23. According to real business cycle theory, an increase in productivity _______ the demand for loanable funds, _______ the demand for labour, and _______ the supply of labour. The real interest rate will _______.
   A) increases; increases; increases; rise
   B) increase; increases; does not change; rise
   C) increases; increases; increases; fall
   D) decrease; decreases; decreases; fall
   E) increase; increases; does not change; fall

24. Suppose OPEC unexpectedly collapses, which leads to a fall in the price of oil. As a result, the price level
   A) falls, and real GDP increases.
   B) rises, and real GDP remains the same.
   C) rises, and real GDP increases.
   D) rises, and real GDP decreases.
   E) falls, and real GDP decreases.

25. Along the short-run Phillips curve, everything remaining the same, the higher the
  A) money wage rate, the lower is the unemployment rate.
  B) price level, the lower the inflation rate.
  C) quantity of money, the lower the unemployment rate.
  D) unemployment rate, the lower the inflation rate.
  E) growth rate of the quantity of money, the higher the inflation rate.

26. An increase in the expected rate of inflation shifts the
  A) short-run Phillips curve downward.
  B) long-run Phillips curve leftward.
  C) short-run Phillips curve upward.
  D) long-run Phillips curve rightward.
  E) B and C are correct.

27. A correctly anticipated increase in the quantity of money, in an economy with an unchanging long-run aggregate supply, will result in
  A) a rise in the price level and a decrease in real GDP.
  B) no change in the price level and an increase in real GDP.
  C) no change in the price level and no change in real GDP.
  D) a proportional rise in the price level and no change in real GDP.
  E) a rise in the price level and an increase in real GDP.

28. For a given expected inflation rate, the higher the unemployment rate, the lower is the actual inflation rate. This relationship is the ________ Phillips curve. When the expected inflation rate changes, this is shown as a movement along the ________ Phillips curve.
  A) short-run; long-run
  B) long-run; natural
  C) natural; short-run
  D) short-run; short-run
  E) long-run; long-run

29. The difference between the before-tax and after-tax rates is the
  A) deadweight loss.
  B) tax wedge.
  C) deadweight gain.
  D) taxation penalty.
  E) tax plug.

30. The Laffer curve is the relationship between
  A) the tax rate and potential GDP.
  B) government outlays and revenues.
  C) tax revenue and potential GDP.
  D) the tax rate and the amount of tax revenue.
  E) government expenditure and potential GDP.

31. A tax on interest income ________.
  A) has no effect on the demand for loanable funds
  B) decreases the demand for loanable funds but does not change the real interest rate
  C) increases the supply of loanable funds and lowers the real interest rate
  D) decreases the supply of loanable funds and has no influence on the real interest rate
  E) increases the demand for loanable funds and raises the real interest rate

32. The use of fiscal policy is limited because
   A) of law-making lag.
   B) of impact lag.
   C) of recognition lag.
   D) all of the above
   E) none of the above

33. Suppose the tax rate on interest income is 50 percent, the real interest rate is 3 percent, and the inflation rate is 4 percent. The real after-tax interest rate is
   A) 3.5 percent. B) -3.5 percent. C) 4.0 percent. D) -0.5 percent. E) 3.0 percent.

34. If revenues exceed outlays, the government's budget balance is ________, and the government has a budget ________.
   A) negative; surplus
   B) negative; deficit
   C) positive; deficit
   D) zero; deficit
   E) positive; surplus

35. Suppose the government starts with a debt of $0. Then in year 1, there is a deficit of $100 billion, in year 2 there is a deficit of $60 billion, in year 3 there is a surplus of $40 billion, and in year 4 there is a deficit of $20 billion. What is government debt at the end of year 4?
   A) Somewhat greater than $220 billion, depending on the interest rate.
   B) $180 billion.
   C) Somewhat greater than $140 billion, depending on the interest rate.
   D) $20 billion.
   E) $140 billion.

36. The cyclical deficit
   A) is an accumulation of the government debt.
   B) is a persistent economic phenomenon.
   C) occurs when the economy is at full employment.
   D) arises purely because real GDP does not equal potential GDP.
   E) none of the above.

37. Automatic fiscal policy
   A) is triggered by the state of the economy.
   B) occurs during recessions but not during expansions.
   C) requires action by Parliament.
   D) involves only a change in personal income tax rates.
   E) involves only a change in government outlays and no change in revenues.

38. Discretionary fiscal policy
   A) occurs during recessions but not during expansions.
   B) involves only a change in government outlays and no change in revenues.
   C) involves only a change in personal income tax rates.
   D) requires action by Parliament.
   E) is triggered by the state of the economy.

39. The main components of government revenues are
   A) debt interest, corporate income taxes, and income taxes.
   B) personal income taxes, corporate income taxes, indirect taxes, and investment income.
   C) corporate income taxes, indirect taxes, and transfer payments.
   D) transfer payments, investment income, and indirect taxes.
   E) debt interest, expenditures on goods and services, and income taxes.

40. The government of Ricardia's budget lists the following projected revenues and outlays: $25 million in personal income taxes, $15 million in corporate income taxes, $5 million in indirect taxes, $2 million in investment income, $30 million in transfer payments, $12 million in government expenditure, and $8 million in debt interest. Ricardia has a government budget
   A) deficit of $3 million.
   B) surplus of $13 million.
   C) deficit of $13 million.
   D) surplus of $57 million.
   E) surplus of $3 million.

41. Currently the government of Ricardia has outlays equal to $100 billion, and a tax scheme that is related positively to real GDP by the following equation: Taxes = $25 billion + 0.1(real GDP). What is the real GDP when the government has a balanced budget?
   A) $750 billion
   B) $1,000 billion
   C) $250
   D) $100
   E) $1,250 billion

Use the figure below to answer the following questions.

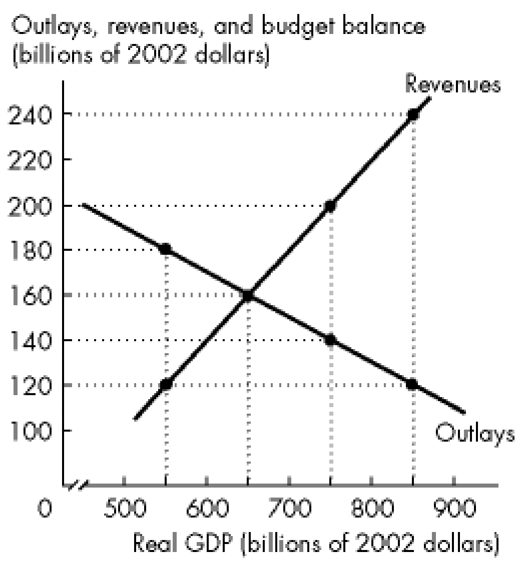

Figure 29.3.1

42. Refer to Figure 29.3.1, which shows the outlays and revenues for the government of Pianoland. The budget is balanced when real GDP equals ________.
   A) $650 billion B) $600 billion C) $750 billion D) $550 billion E) $700 billion

43. Refer to Figure 29.3.1, which shows the outlays and revenues for the government of Pianoland. If real GDP equals $550 billion, the budget is
   A) a surplus of $40 billion.
   B) a surplus of $60 billion.
   C) a deficit of $40 billion.
   D) a deficit of $60 billion.
   E) in balance.

44. Refer to Figure 29.3.1, which shows the outlays and revenues for the government of Pianoland. If real GDP equals $550 billion, the structural deficit is
   A) a surplus of $40 billion.
   B) $60 billion.
   C) a surplus of $60 billion.
   D) zero.
   E) unknown given the available information.

45. Refer to Figure 29.3.1, which shows the outlays and revenues for the government of Pianoland. If potential GDP is $750 billion,
   A) the structural surplus is $60 billion.
   B) the structural deficit is $40 billion.
   C) the structural surplus is $40 billion.
   D) neither a structural surplus nor a structural deficit exists.
   E) the structural deficit is $60 billion.

46. Refer to Figure 29.3.1, which shows the outlays and revenues for the government of Pianoland. An automatic increase in tax revenues would be shown as a
   A) movement from left to right along the outlays curve.
   B) shift upwards in the revenues curve.
   C) movement from left to right along the revenues curve.
   D) shift upwards in the the outlays curve.
   E) both A and C.

47. An increase in income taxes
   A) decreases potential GDP because workers' incentives to work are weakened.
   B) does not affect potential GDP as long as the economy's endowments of resources and the state of technology remain unchanged.
   C) decreases potential GDP because real GDP decreases when households have less disposable income to spend.
   D) does not affect potential GDP because potential GDP depends on technology only.
   E) increases potential GDP because workers have to work longer hours to maintain the same standard of living before the tax increase.

Use the figure below to answer the following questions.

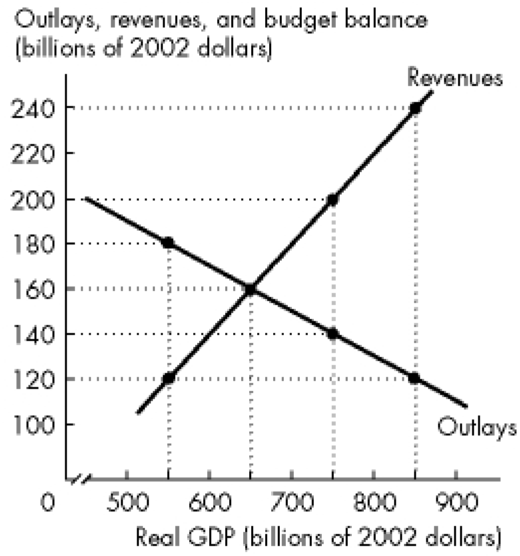

Figure 29.3.1

48. Refer to Figure 29.3.1, which shows the outlays and revenues for the government of Pianoland. Discretionary expansionary fiscal policy would be shown as
    A) a movement from left to right along the revenues curve.
    B) an upward shift of the revenues curve.
    C) an upward shift of the outlays curve.
    D) a movement from left to right along the outlays curve.
    E) both A and C.

49. The objective of the Bank of Canada's monetary policy is
    A) to keep the labour force participation rate above 80 percent, the inflation rate below 2 percent a year, and the exchange rate fluctuating by less than 3 percent a year.
    B) to keep the overnight loans rate below 2 percent a year and the unemployment rate at its natural rate.
    C) to keep the unemployment rate below 5 percent, the inflation rate between 1 and 3 percent a year, and long-term real GDP growth above 4 percent a year.
    D) to control the quantity of money and interest rates to avoid inflation and when possible prevent excessive swings in real GDP growth and unemployment.
    E) to keep the unemployment rate below 5 percent, the inflation rate between 1 and 3 percent a year, and long-term interest rates below 4 percent a year.

50. In an open market operation aimed at increasing expenditure, the Bank of Canada
    A) sells government bonds, decreasing bank reserves, decreasing lending, increasing the overnight rate.
    B) buys government bonds, increasing bank reserves, increasing lending, increasing the overnight rate.
    C) sells government bonds, decreasing bank reserves, decreasing lending, decreasing the overnight rate.
    D) buys government bonds, increasing bank reserves, increasing lending, decreasing the overnight rate.
    E) sells government bonds, decreasing bank reserves, increasing lending, increasing the overnight rate.

51. The overnight rate is determined by equilibrium in the market for ________. The overnight rate ________.
   A) loanable funds; equals the real interest rate
   B) reserves; equals the real interest rate minus the inflation rate
   C) money; equals the real interest rate
   D) loanable funds; equals the real interest rate minus the inflation rate
   E) reserves; is the rate that sets the quantity of reserves demanded equal to the quantity of reserves supplied

52. If the overnight rate is above target, the Bank ________ securities to ________ reserves, which ________ the supply of overnight funds and ________ the overnight rate.
   A) buys; decrease; decreases; raises
   B) buys; increase; increases; lowers
   C) buys; increase; decreases; raises
   D) sells; decrease; decreases; raises
   E) sells; increase; increases; lowers

53. The ripple effects that occur when the Bank of Canada raises the overnight loan rate include ________.
   A) an increase in short-run aggregate supply
   B) a decrease in consumption expenditure and investment
   C) a decrease in short-run interest rates
   D) a decrease in short-run aggregate supply
   E) an increase in net exports

54. The Bank of Canada raises the overnight loans rate. In the foreign exchange market people ________ dollars and the price of the dollar ________ because the Canadian interest rate differential ________.
   A) buy; falls; rises
   B) buy; rises; falls
   C) sell; falls; falls
   D) sell; rises; falls
   E) buy; rises; rises

55. The headline "The Bank of Canada Has Cut the Bank Rate" suggests that the Bank of Canada is trying to
   A) increase the overnight loans rate.
   B) lower inflationary pressures.
   C) help banks make profits.
   D) raise the value of the Canadian dollar.
   E) stimulate aggregate demand.

Use the figure below to answer the following question.

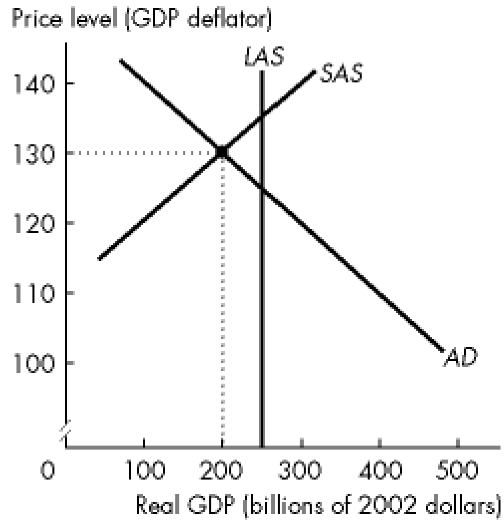

Figure 30.3.2

56. Refer to Figure 30.3.2. The figure shows the economy of Freezone. Potential GDP is $250 billion. To return the economy to full employment, the central bank can ________ the overnight rate and ________ securities.
    A) lower; sell
    B) lower; not change its holdings of
    C) lower; buy
    D) raise; buy
    E) raise; sell

57. Choose the correct statement.
    A) The long-term real interest rate influences expenditure decisions.
    B) Demand and supply in the loanable funds market determine the long-term real interest rate.
    C) A fall in the overnight loans rate that increases the supply of bank loans increases the supply of loanable funds and lowers the equilibrium real interest rate.
    D) In the short run, the supply of loanable funds is influenced by the supply of bank loans.
    E) All of the above are correct.

58. Core inflation is the percentage change in
    A) the Consumer Price Index including the eight most volatile prices.
    B) the target midpoint inflation rate of 2 percent per year.
    C) an inflation rate that ranges between 1 percent and 3 percent annually.
    D) the average of the 8 most volatile prices in the Consumer Price Index.
    E) the Consumer Price Index excluding the eight most volatile prices.

59. As the sole issuer of Canadian money, the Bank of Canada can set any one of three variables:
    A) the monetary base, the exchange rate, and the short-term interest rate.
    B) the exchange rate, the interest rate, and the inflation rate.
    C) the inflation rate, the unemployment rate, and the real economic growth rate.
    D) the rate of inflation, the interest rate, and the unemployment rate.
    E) the money base, the interest rate, and the unemployment rate.

60. What is the overnight loans rate?
A) The interest rate that the Bank of Canada charges chartered banks.
B) The percentage change in the volume of loans that take place overnight.
C) The volume of loans that take place during the night.
D) The interest rate that the Bank of Canada pays when it buys securities from chartered banks.
E) The interest rate on loans that the big banks make to each other.

61. 25 basis points is
A) the spread between the savings rate and the lending rate.
B) a quarter of a percentage point.
C) the gap by which real GDP exceeds potential GDP.
D) a quarter of the Bank of Canada's target inflation rate.
E) the spread between the bank rate and the settlement balances rate.

62. If the Bank of Canada lowers the overnight loans rate,
A) other short-term interest rates fall.
B) other short-term interest rates rise.
C) the exchange rate falls.
D) the long-term interest rate falls.
E) A, C and D are correct.

63. The sale of government bonds by the Bank of Canada
A) increases the quantity of money.
B) lowers interest rates.
C) increases the banks' loans to the public.
D) increases bank reserves.
E) decreases bank reserves.

64. Which of the following statements *correctly* describes an anti-inflationary monetary policy?
A) "The Bank of Canada's recent moves to lower interest rates are behind the recent decreases in the value of the Canadian dollar."
B) "The Bank of Canada's recent sales of government securities are stimulating the housing sector."
C) "The Bank of Canada's recent purchases of government securities is stimulating the housing sector."
D) "The Bank of Canada's recent moves to increase the overnight loans rate are leading to less lending and less consumer spending."
E) "The Bank of Canada's recent moves to decrease the value of the Canadian dollar are leading to more spending in the economy."

65. Which statement below best expresses the relationship between the 3-month Treasury bill rate and the overnight loans rate? The rates are
A) not similar because banks can not readily substitute between them.
B) similar because they are both required to remain with the Bank of Canada's operating band.
C) not similar because the treasury bill rate is set by the Government of Canada whereas the overnight loans rate is set by the Bank of Canada.
D) not similar because the treasury bill rate is established through the financial markets whereas the overnight loans rate is set by the Bank of Canada.
E) similar because banks can readily substitute between them.

Answer Key
Testname: ECON102 SAMPLE EXAM QUESTIONS FOR CHAPTER 27, 28, 29 AND 30

1. A
2. C
3. C
4. C
5. A
6. D
7. B
8. E
9. B
10. E
11. A
12. A
13. A
14. E
15. C
16. D
17. A
18. A
19. B
20. B
21. E
22. E
23. A
24. A
25. D
26. C
27. D
28. A
29. B
30. D
31. A
32. D
33. D
34. E
35. E
36. D
37. A
38. D
39. B
40. A
41. A
42. A
43. D
44. E
45. A
46. C
47. A
48. C
49. D
50. D
51. E
52. B
53. B
54. E
55. E
56. C
57. E
58. E
59. A
60. E
61. B
62. E
63. E
64. D
65. E