

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

1. Gross domestic product is
 - A) the average value of output produced in a country in a given time period.
 - B) the market value of all goods and services produced in a country during a given time period.
 - C) the final value of all goods produced in a country in a given time period.
 - D) the market value of all the final goods and services produced in a country during a given time period.
 - E) the market value of all the intermediate goods and services produced in a country during a given time period.
2. Which of the following statements is true?
 - A) Final goods and services produced in Canada by foreigners are imports.
 - B) Final goods and services produced abroad by Canadians are part of Canadian GDP.
 - C) Final goods and services produced in Canada by foreigners are part of Canada's GDP.
 - D) Final goods and services produced in Canada by foreigners are exports.
 - E) Final goods and services produced in Canada by foreigners are part of the foreign country's GDP.
3. The circular flow diagram illustrates the expenditures made by
 - A) firms, households, and governments only.
 - B) households, firms, governments, and the rest of the world.
 - C) households and firms only.
 - D) households only.
 - E) households and investors only.
4. Of the following items, which one would be considered as investment in the *National Income and Expenditure Accounts*?
 - A) The purchase of 100 shares of Bell Canada stock on the Toronto Stock Exchange.
 - B) The purchase of a new van by a potter who packs it with his wares and travels to art shows on weekends.
 - C) The purchase of a Canadian government bond.
 - D) The purchase of a 100-year-old house that was put on the protected historic sites list.
 - E) All of the above.
5. Which one of the following is an expenditure flow from households to firms?
 - A) goods and services
 - B) factor services
 - C) payments for goods and services
 - D) payments for factor services
 - E) loans
6. One of the reasons why real GDP grows is that
 - A) governments collect more taxes.
 - B) prices increase.
 - C) imports increase.
 - D) people have more income.
 - E) capital grows as a result of investment.

Use the figure below to answer the following questions.

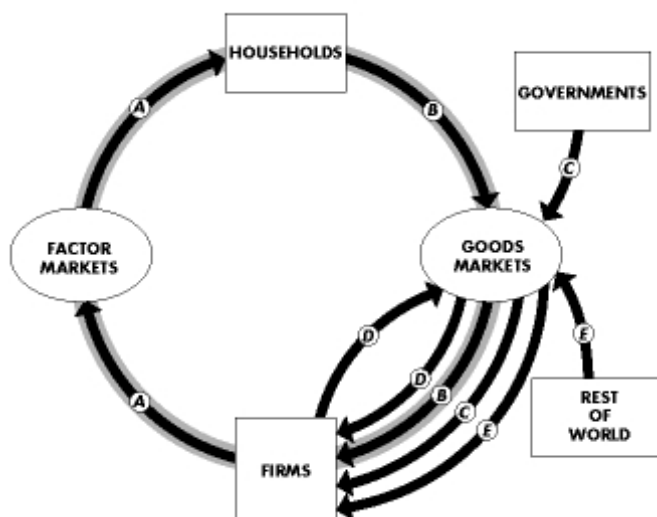


Figure 20.1.1

7. Refer to Figure 20.1.1, which shows the circular flow of expenditure and income for Venus. During 2012, *A* was \$100, *B* was \$50, *C* was \$30 and *D* was \$10. How much is GDP?
- A) \$75
 - B) \$100
 - C) \$90
 - D) \$50
 - E) None of the above

Use the information below to answer the following questions.

Fact 20.1.1

At the beginning of 2012, Peter's Perfectly Prickly Piercing Parlour had \$5,000 worth of bellybutton and eyebrow rings on hand, 2 computers (each worth \$1,000), 1 cash register worth \$100, electrical equipment worth \$500, and one piercing needle worth \$500. At the end of 2012, they had \$5,000 worth of bellybutton and eyebrow rings, a new high speed computer worth \$3,000 (they had to throw out the old ones), the same cash register, which was now worthless, electrical equipment worth \$600, and they had upgraded the needle at a cost of \$700 which was valued at \$1,000 at the moment.

8. Refer to Fact 20.1.1. Peter's capital at the beginning of 2012 is
- A) \$8,100.
 - B) \$7,000.
 - C) \$5,000.
 - D) \$3,100.
 - E) \$7,600.
9. Refer to Fact 20.1.1. Peter's capital at the end of 2012 is
- A) \$9,600.
 - B) \$7,600.
 - C) \$7,000.
 - D) \$4,400.
 - E) \$4,000.
10. Intermediate goods are
- A) capital.
 - B) included directly in the measure of GDP.
 - C) purchased this year but consumed in future years.
 - D) sold to their ultimate user.
 - E) produced by one firm, bought by another firm, and used as a component of a final good or service.

11. Which of the following adds to Canadian GDP?
- A) The production and sale of flour to a bakery.
 - B) I sell my used Honda.
 - C) The ice cream I buy from my grocery store.
 - D) I shovel my own driveway.
 - E) The purchase of a CD made in China.
12. Suppose the economy of Econoworld produces only two goods, kayaks and birdseed. In one year 20 kayaks are produced and sold for \$1,000 each and 10 bags of birdseed are produced and sold for \$30 each. The value of nominal GDP for this year is
- A) \$20,300.
 - B) \$300.
 - C) \$20,000.
 - D) \$23,000.
 - E) 20 kayaks plus 10 bags of birdseed.

Use the table below to answer the following questions.

Table 20.2.1
Data From Eastland

Wages, salaries, and supplementary labour income	800
Other factor incomes	260
Government expenditures on goods and services	240
Depreciation	240
Investment	400
Personal income taxes net of transfer payments	140
Indirect taxes	120
Net exports	80
Consumption expenditure	640

13. Refer to Table 20.2.1. From the information given in the table, the value of gross domestic product is
- A) \$1,100.
 - B) \$1,280.
 - C) \$1,290.
 - D) \$1,360.
 - E) \$1,120.
14. The largest component of GDP using the expenditure approach is
- A) government expenditure
 - B) imports
 - C) investment
 - D) exports
 - E) consumption expenditure
15. Which one of the following would be included in the calculation of GDP by the expenditure approach?
- A) the cost of adding a new kitchen to your house
 - B) the purchase of an original eighteenth century work of art
 - C) the value of your brother's services when he mows the lawn for the family
 - D) the purchase of 20 shares of a new issue of IBM stock
 - E) the purchase of a second-hand car

16. To obtain the factor cost of a good from its market price
- A) subtract depreciation.
 - B) add indirect taxes and subtract subsidies.
 - C) subtract indirect taxes and add subsidies.
 - D) add both indirect taxes and subsidies.
 - E) subtract both indirect taxes and subsidies.
17. Suppose in current dollar terms, GDP increased by approximately 7 percent between one period and the next, but real GDP fell by 2 percent. Which one of the following explanations is most likely?
- A) Output rose by 2 percent.
 - B) Prices fell by 9 percent.
 - C) Prices increased by 7 percent.
 - D) Prices increased by 9 percent.
 - E) Prices fell by 2 percent.
18. Real GDP will increase only if the
- A) average level of prices rises.
 - B) quantity of goods and services produced increases.
 - C) employment rate rises.
 - D) employment rate falls.
 - E) unemployment rate rises.
19. The existence of which one of the following is *not* a reason for the fact that GDP gives an incorrect estimate of the value of total output in the economy?
- A) social justice
 - B) political freedom
 - C) taxes
 - D) leisure time
 - E) health and life expectancy
20. In any year, real GDP
- A) will always be greater than potential GDP because of the tendency of nations to incur inflation.
 - B) increases if potential GDP increases, and decreases if potential GDP decreases.
 - C) might be greater than, less than, or equal to potential GDP.
 - D) always equals potential GDP.
 - E) must always be less than potential GDP.
21. The four parts of the business cycle occur in the following order:
- A) expansion, trough, recession, peak.
 - B) trough, peak, expansion, recession.
 - C) expansion, trough, peak, recession.
 - D) recession, trough, expansion, peak.
 - E) recession, trough, peak, expansion.
22. Why is the Human Development Index thought to be a better measure of economic well-being than real GDP per person?
- A) It includes only health and education measures, ignoring real GDP per person.
 - B) It includes leisure time and household production.
 - C) It includes health and education measures, as well as real GDP per person.
 - D) It includes a measure of resource depletion.
 - E) It ignores health, which is hard to measure.

23. When we use PPP we can make valid international comparisons of real GDP because we
- A) use data provided by the IMF.
 - B) calculate the value of goods and services produced in two countries using the same quantities.
 - C) use official government data.
 - D) use the price data provided by the two countries but not the quantities.
 - E) calculate the value of goods and services produced in two countries using the same prices.

Use the table below to answer the following questions.

Table 20.4.1

Item	2011 Quantity	2011 Price	2012 Quantity	2012 Price
CD players	10	\$100	15	\$110
bananas	50 bunches	\$2	100 bunches	\$3

24. Refer to Table 20.4.1. In this table, at 2011 prices, the value of production from 2011 to 2012 has increased by
- A) 54.5 percent.
 - B) 77.3 percent.
 - C) 10.8 percent.
 - D) 91.7 percent.
 - E) 56 percent.
25. Refer to Table 20.4.1. In this table, at 2012 prices, the value of production from 2011 to 2012 has increased by
- A) 56 percent.
 - B) 54.5 percent.
 - C) 10.8 percent.
 - D) 91.7 percent.
 - E) 77.3 percent.
26. Refer to Table 20.4.1. Calculating chained-dollar real GDP, real GDP in 2012 increased by
- A) 30 percent.
 - B) 55.25 percent.
 - C) 54.5 percent.
 - D) 56 percent.
 - E) 75 percent.
27. Refer to Table 20.4.1. If 2011 is the base year, chained-dollar real GDP in 2012 is
- A) \$1665.
 - B) \$1950.5.
 - C) \$1250.
 - D) \$1707.75.
 - E) \$1100.
28. Which one of the following people would be counted as unemployed in Canada?
- A) Kathy has stopped looking for work since she was unable to find a suitable job during a one-month search.
 - B) Benoit who was laid off when his firm closed down 2 months ago and has not been looking for work as he is going back to school.
 - C) Veena is not working, but she is looking for a full-time job.
 - D) Sharon is a college student with a job.
 - E) Christos has been laid off from his job a month ago, and has not been looking for a new job as he is waiting for a severance package from his former employer.
29. The labour force is
- A) the total number of people in the working-age population who are employed.
 - B) the total number of people employed.
 - C) the total number of people aged 15 years and over.
 - D) the total number of people in the working-age population who are either employed or unemployed.
 - E) none of the above.

30. Counting involuntary part-time workers as unemployed would
- A) raise the measured unemployment rate.
 - B) not change the actual unemployment rate.
 - C) raise the full employment rate.
 - D) lower the measured unemployment rate.
 - E) raise the natural unemployment rate.
31. In a country with a working-age population of 22 million, 16 million are employed, 2 million are unemployed, and 1 million of the employed are working part-time, half of whom wish to work full-time. The unemployment rate is
- A) 10.3 percent.
 - B) 15.4 percent.
 - C) 11.1 percent.
 - D) 10 percent.
 - E) none of the above.
32. In a country with a working-age population of 30 million, 18 million are employed, 2 million are unemployed, and 2 million of the employed are working part-time, half of whom wish to work full-time. The labour force participation rate is
- A) 73.3 percent.
 - B) 53.3 percent.
 - C) 66.7 percent.
 - D) 60 percent.
 - E) none of the above.
33. Unemployment caused by permanently decreased demand for horse-drawn carriages is an example of
- A) frictional unemployment.
 - B) cyclical unemployment.
 - C) discouraged unemployment.
 - D) structural unemployment.
 - E) seasonal unemployment.
34. Which one of the following people is frictionally unemployed? A steel worker who
- A) gives up her job because she retires.
 - B) becomes discouraged and stops looking for a job.
 - C) is laid off but expects to be called back soon.
 - D) loses her job because of technological change.
 - E) decides to leave the labour force and become a full-time ballet student.
35. A recession is a period with
- A) a slowdown in real GDP growth but not necessarily negative real GDP growth.
 - B) positive growth rate in real GDP that lasts at least two quarters.
 - C) negative growth rate in real GDP that lasts at least one quarter.
 - D) negative growth rate in real GDP that lasts at least two quarters.
 - E) positive growth rate in real GDP that lasts at least one quarter.

Use the table below to answer the following questions.

Table 21.2.1

This table shows the answers given by interviewees to the Labour Force Survey

Person A	Now that kids are in school full-time, this person is looking for work and has been interviewed for three jobs over the past 2 weeks.
Person B	This person has been laid off but expects to be called back in a few weeks, just as soon as the economy improves.
Person C	This person has just graduated from university and will start a new job in 8 weeks. In the meantime, this person is surveying local drinking establishments.
Person D	This person was laid off last year when new equipment at the plant reduced the number of jobs. Since his layoff, this person has been constantly job searching.
Person E	This economics graduate is working two nights a week at the 7-11, but wants full-time work as an economist.

36. In Table 21.2.1, which person is frictionally unemployed?

- A) A
- B) B
- C) C
- D) E
- E) none of them

37. In Table 21.2.1, which person is structurally unemployed?

- A) A
- B) B
- C) C
- D) D
- E) none of them

38. In Table 21.2.1, which person is cyclically unemployed?

- A) A
- B) B
- C) C
- D) D and B
- E) A and C

39. In Table 21.2.1, which person is a discouraged worker?

- A) A
- B) B
- C) C
- D) D
- E) none of them

40. If the inflation rate is negative, the price level in an economy is _____.
 A) falling
 B) constant
 C) rising rapidly
 D) rising slowly
 E) none of the above
41. If the CPI was 128 at the end of 2011 and 136 at the end of 2012, what was the inflation rate in 2012?
 A) 8 percent B) 6.25 percent C) 4.2 percent D) 9.4 percent E) 5.9 percent
42. The consumer price index is a measure of
 A) the commodity prices paid by urban consumers for a fixed basket of consumer goods and services.
 B) the lowest prices paid by urban consumers for a fixed basket of consumer goods and services.
 C) the average of the prices paid by urban consumers for a fixed basket of consumer goods and services.
 D) the average of the prices paid by rural consumers for a fixed basket of consumer goods and services.
 E) the consumer prices paid by average households for a fixed basket of goods and services.

Use the table below to answer the following questions.

Table 21.3.1
 Suppose a simple economy produces three goods only.
 The price and output data for some selected years are shown below.

	Price (dollars)	Price (dollars)	Quantity (number)	Quantity (number)
	2002	2012	2002	2012
Pop	0.75	1.10	100	120
Crackers	1.25	2.10	300	280
Cucumbers	2.00	3.00	200	190

43. Refer to Table 21.3.1. The reference base period is 2002. The CPI in 2012 is
 A) 100. B) 96. C) 63. D) 1,340. E) 158.
44. Refer to Table 21.3.1. The reference base period is 2002. Which one of the following statements is true?
 A) All prices have risen by the same amount.
 B) The inflation rate in 2002 is greater than the inflation rate in 2012.
 C) From 2002 to 2012, the cost of the market basket rose by 58 percent.
 D) The inflation rate in 2012 is greater than the inflation rate in 2002.
 E) It costs 158 times more in 2012 than it does in 2002 to buy the same market basket.
45. Refer to Table 21.3.1. The reference base period is 2012. The CPI in 2012 is
 A) 157. B) 64. C) 100. D) 129. E) 153.