

**Econ 203. Introduction to Macroeconomics,
Section E. Midterm exam: Version 1. Winter 2018**

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1. If the nominal GDP's of Canada were \$1.5 trillion in 2009 and \$1.4 trillion in 2010, respectively, what can we conclude?
- A) We had negative inflation between 2009 and 2010
 - B) We had a higher unemployment rate in 2010 compared to 2009
 - C) We have a real GDP shrinkage in 2010
 - D) None of the answers is correct
2. If nominal GDP increases at a rate of 5 per cent per year while the GDP deflator increases at 8 per cent per year, then what can we conclude about real GDP?
- A) It falls by 3 per cent
 - B) It rises by 13 per cent
 - C) It remains constant
 - D) It rises by 3 per cent
3. Which of the following is included in the measurement of unemployment rate?
- A) A person who goes to job interviews every day
 - B) A person serving his sentence in a maximum security prison
 - C) A laid off worker who goes back to school full time
 - D) A 25-year old who is a stay-at-home parent

Suppose the production of a car involves a few stages. The tire and parts company buys the rubber and steel for \$8,000 and sells the tires to the assembly firm for \$12,000. The assembly firm puts the parts together sells it to the shipping company for \$18,000. When the car goes from Windsor to downtown Toronto dealership, the dealership pays \$26,000 for it. The dealership sells the car for \$28,000 to its customer. What is the value-added of the tire and parts company?

4. 8000
- A) \$2,000
 - B) \$8,000
 - C) \$6,000
 - D) \$4,000
5. Which of the following topics would NOT be studied by a macroeconomist?
- A) The effects of monetary policies on the value of the Canadian dollar
 - ☒ B) The effects of how government funding on education affects Canada's national debt
 - C) The effects of how cutting the Goods and Services sales tax affect the restaurant industry
 - D) The economic growth rates of the country
6. Which of the following is (are) example(s) of investment expenditure?
- A) Putting some money into an interest-bearing savings account
 - B) Buying a new mannequin for a window display
 - C) Buying bonds issued by Blackberry

D) All of the answers are correct

7. Suppose the GDP for a hypothetical economy is \$5,000, $C = \$3,000$, $G = \$1,200$ and $NX = -\$800$. What is the value of I ?

A) \$1,000
B) \$1,400
C) \$1,200
D) \$1,600

8. Suppose in the economy of Pluto the total expenditure for a basket of goods in 2010 (the base year) was \$800 million. In 2011, the total expenditure for the same basket of goods was \$904 million. What is the CPI for 2010?

A) 105
B) 113
C) 118
D) 100

9. Continue with question 8: What is the CPI for 2011?

A) 100
B) 118
C) 105
D) 113

10. Which of the following does NOT accurately describe inflation rates?

A) They magnify the values of real GDP
B) They capture the persistent changes in the general price levels
C) They can be derived from Consumer Price Index
D) They can be positive, negative or equal to zero

11. Suppose the nominal GDP of a country was \$800 in 2011 and its GDP deflator was 106. For 2012, its nominal GDP was \$880 and its GDP deflator was 112. What was this country's 2011-2012 nominal GDP growth rate?

A) 10%
B) 11%
C) 13%
D) 12%

12. What are the three main indicators that macroeconomics study?

A) GDP, unemployment rates and profits
B) Wage rates, unemployment rates and interest rates
C) GDP, unemployment rates and inflation rates
D) GDP, import tax rates and interest rates

13. Which of the following always correspond(s) to a fall in the short run output?
 - A) The AS shifts down
 - B) The resulting price level falls
 - C) The AD shifts up
 - D) None of the answers is correct
14. If Y equals 1,200 and Y_P is 1000, then what is the output gap equal to?
 - A) -20%
 - B) +20%
 - C) +8.33%
 - D) -8.33%
15. The aggregate demand function is derived from which of the following concepts?
 - A) The total product approach used in national accounts to measure GDP
 - B) The expenditure approach used in national accounts to measure GDP
 - C) The income approach used in national accounts to measure GDP
 - D) None of the answers is correct
16. Short run fluctuations in aggregate demand or aggregate supply cause:
 - A) Short run changes on equilibrium real GDP and the GDP deflator.
 - B) Changes in equilibrium real GDP but no changes in the GDP deflator.
 - C) Changes in the GDP deflator but no change on equilibrium real GDP.
 - D) Long run changes in the real GDP and the GDP deflator.
17. The aggregate supply function is derived from which of the following concepts?
 - A) The total product approach used in national accounts to measure GDP
 - B) The income approach used in national accounts to measure GDP
 - C) The expenditure approach used in national accounts to measure GDP
 - D) None of the answers is correct
18. Which of the following policies should be used to eliminate inflationary gaps?
 - A) Increase government spending
 - B) Increase interest rates
 - C) Decrease income taxes
 - D) All of the answers are correct
19. Why are input prices and final goods and services prices sticky in the short run?
 - A) Government legislation, such as minimum wage, limits the downward movements of wages
 - B) It is costly for firms to keep changing prices
 - C) Wages may be subjected to contract terms

D) All of the answers are correct

20. When does potential output Y_p change?

- A) When the size of the labour force changes
- B) When government policy changes
- C) When central bank policy changes
- D) When the price level changes

21. The interest rate effect states that a higher price level will increase the demand for money, which will then ____ interest rates and ____ planned consumption spending.

- A) Decrease; decrease
- B) Decrease; increase
- C) Increase; increase
- D) Increase; decrease

22. The trade effect states that a higher price level will lead to a(n) ____ in our exports and a(n) ____ in our imports.

- A) Decrease; increase
- B) Increase; increase
- C) Decrease; decrease
- D) Increase; decrease

23. Suppose the AD is given by $P = 150 - Y_{AD}$, where P is the general price level. The AS is given by $P = 10 + Y_{AS}$. What is the equilibrium P ?

- A) 100
- B) 90
- C) 110
- D) 80

Suppose optimism has led the firms to increase their collective expenditure by \$50 billion.

24. Which of the following aggregate expenditure functions will create the largest impact on GDP?

- A) $AE = 800 + 0.2Y$
- B) $AE = 100 + 0.9Y$
- C) $AE = 250 + 0.8Y$
- D) $AE = 900 + 0.5Y$

25. The multiplier is a number that can be used to predict:

- A) The increase in potential output caused by an increase in autonomous expenditure.
- B) The fall in equilibrium real GDP caused by a fall in autonomous expenditure.
- C) The fall in induced expenditure caused by a rise in the GDP deflator.
- D) The increase in wage rates caused by an increase in employment.

26. If the mpc is equal to 0.75 and the mpm is equal to 0.15, what can we conclude?
- A) Expenditures are high when our income is very low
 - B) A change in national income does not change induced expenditures
 - C) A rise in national income will cause a rise in aggregate expenditure
 - D) All of the answers are correct
27. In an open economy with consumption, investment and net export expenditures, what is the equilibrium GDP?
- A) At the level where business inventory is equal to zero
 - B) At the level where actual unemployment rate is equal to the natural unemployment rate
 - C) At the level where imports are equal to zero
 - D) At the level where planned expenditure by households and business equals output
28. Consider a simple economy. If the marginal propensity to consume is 0.8 and the marginal propensity to import is 0.2, then what is the value of the expenditure multiplier?
- A) 3
 - B) 2.5
 - C) 3.5
 - D) 2
29. In Canada, which of the following components of AE has the largest value?
- A) Imports
 - B) Exports
 - C) Consumption
 - D) Investment
30. Which of the following is (are) CORRECT about the $Y=AE$ model?
- A) The output level is solely determined by the demand side of the economy
 - B) The general price level of goods and services is fixed
 - C) The 45-degree line shows that $Y=AE$
 - D) All of the answers are correct
31. Which of the following is (are) CORRECT about induced expenditure?
- A) It is always changes by less than the change in national income
 - B) It is always positive
 - C) It reflects our spending habits that are dependent on income
 - D) All of the answers are correct
32. Which of the following is NOT an example of investment expenditure?
- A) Firms buying new office buildings
 - B) Firms buying stocks and bonds of other firms

- C) Firms buying inputs such as steel and wood
 - D) Firms buying products to replenish its inventory
33. Suppose autonomous expenditure is 230 and induced expenditure is $0.6Y$. What is the equilibrium Y ?
- A) \$600
 - B) \$625
 - C) \$700
 - D) \$575
34. The sources of autonomous expenditure in the economy without a government sector are:
- A) Consumption and investment
 - B) Consumption, investment and exports
 - C) Exports and investment
 - D) Exports and imports
35. Which of the following is a leakage variable?
- A) Autonomous investment
 - B) Imports
 - C) Autonomous consumption
 - D) Exports
36. If the expenditure multiplier is 4, then an increase in autonomous expenditure such as exports by \$20 billion will ____.
- A) Increase GDP by \$80 billion
 - B) Decrease GDP by \$80 billion
 - C) Increase GDP by \$20 billion
 - D) Decrease GDP by \$20 billion
37. The Canadian government directly buys around what portion of Canada's GDP?
- A) 80-90%
 - B) 20-25%
 - C) 10-15%
 - D) 40-50%
38. How do government activities affect aggregate demand?
- A) Through making transfer payments to individuals
 - B) Through importing products from abroad
 - C) Through purchases of goods and services
 - D) All of the answers are correct
39. What does fiscal policy refer to?

- A) Using government spending and taxes to increase equality in the distribution of income
 - B) Using interest rates and exchange rates to increase equality in the distribution of income
 - C) Using government spending and taxes to stabilize domestic output and employment
 - D) Using interest rates and exchange rates to balance the fiscal budget
40. If the tax rate t rises, then:
- A) The BB line will pivot upward, making it steeper
 - B) The BB line will shift upward with no change in slope
 - C) The BB line will pivot downward, making it flatter
 - D) The BB line will shift downward with no change in slope
41. For a given fluctuation in autonomous expenditure, economies with higher income tax rate t will:
- A) Experience no business cycle fluctuations in real GDP and employment
 - B) Experience larger business cycle fluctuations in real GDP and employment only if the government runs a balanced budget
 - C) Experience some business cycle fluctuations in real GDP and employment but the fluctuations are independent of t
 - D) Experience smaller business cycle fluctuations in real GDP and employment
42. Suppose that the government decreases its autonomous spending by \$100 billion and also decreases its autonomous taxes by \$100 billion. How would this affect the economy?
- A) GDP will rise
 - B) GDP may rise or fall depending on the size of the mpc
 - C) No effect on the level of GDP
 - D) GDP will fall
43. Which of the following is (are) automatic stabilizer(s)?
- A) Goods and Services taxes
 - B) Employment insurance premiums
 - C) Income taxes
 - D) All of the answers are correct
44. Suppose the mpc is 0.75 out of disposable income (YD) and the government imposes a net tax rate of 0.2. What is the mpc out of national income (Y)?
- A) 0.6
 - B) 0.16
 - C) 0.5
 - D) 0.64
45. Consider the budget balance (BB) equation of $BB = tY - G$. Assume that t is 0.2, potential output is 1000 and G is 180. Which of the following statements is (are) INCORRECT?

- A) There will be zero budget balance when Y is 900
- B) With negative GDP gap of 20%, the budget balance is -20
- C) The structural budget balance is 20
- D) With negative GDP gap, the structural budget balance will be larger than 20

- In the presence of the 2008 recession, the Canadian government opted for an injection of fiscal spending into its economy. Canadian induced expenditure is $0.6Y$, the marginal propensity to import is 0.04 and the government wants to close a recessionary gap of \$50 million. How much should the Canadian government spend?
46.
 A) \$25 million
 B) \$15 million
 C) \$20 million
 D) \$10 million
47. Assume that the tax rate t is 0.25, Y_p is 1,000 and G is 200. Which of the following statements is CORRECT?
 A) If Y increases, the structural budget balance will increase
 B) There will be zero budget balance when Y is 900
 C) With negative GDP gap of 25%, the budget balance is 0
 D) The structural budget balance is 50
48. Which of the following is an example of discretionary fiscal policy?
 A) Income tax rates are cut during economic recession
 B) More people receive employment insurance during economic recession
 C) Interest rates are cut during economic boom
 D) Income tax revenues rise during economic boom
49. The government's budget balance depends on:
 A) The tax rate set by government and government expenditure on goods and services
 B) Canada's imports and exports of goods and services
 C) The level of potential output determined by the labour force, the capital stock and technology
 D) The tax rates, expenditures set by government and the level of GDP determined by $AD=AS$
50. Suppose we observe that the government has an actual budget deficit of \$20 billion. What can we conclude?
 A) We cannot identify the current state of discretionary fiscal policy
 B) The economy was in a recession
 C) Discretionary fiscal policy was expansionary
 D) Discretionary fiscal policy was contractionary

