

Concordia University  
Department of Economics  
ECON 203 - INTRODUCTION TO MACROECONOMICS  
Fall 2017 sections B, C

Mid-term EXAM - **VERSION 2**

FIRST NAME: \_\_\_\_\_ LAST NAME: \_\_\_\_\_

STUDENT NUMBER: \_\_\_\_\_

Please, read all instructions carefully:

1. 50 multiple-choice questions (100 marks)
2. Write your name, student ID and answers for the multiple-choice questions on the computer scan-sheet with a pencil.
3. Please, also write the version of the exam on the computer scan-sheet.
4. You are allowed to use a non-programmable calculator and a paper dictionary, provided that they are approved by the invigilator(s).
5. You are not allowed to tear any pages out of this exam.

6. Submit questionnaire

&

computer scan-sheet

at the end of exam.

**Good Luck**

1. Which of the following is (are) example(s) of investment expenditure?
  - A) Buying bonds issued by Blackberry
  - B) Buying a new mannequin for a window display
  - C) Putting some money into an interest-bearing savings account
  - D) All of the answers are correct
2. How is the expenditure-based GDP measured?
  - A)  $C + I + G + \text{Exports} - \text{Imports}$
  - B)  $C + I + G + \text{Imports} - \text{Exports}$
  - C)  $C + I + G + \text{capital consumption allowance}$
  - D) None of the answers is correct
3. What does nominal GDP measure?
  - A) Price changes in output
  - B) Output at constant market prices
  - C) Investment spending by firms
  - D) Output at current market prices
4. 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 rises by 3 per cent
  - B) It falls by 3 per cent
  - C) It rises by 13 per cent
  - D) It remains constant

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?

5.
  - A) 113
  - B) 105
  - C) 100
  - D) 118
6. Continue with question 5: What is the CPI for 2011?
  - A) 118
  - B) 100
  - C) 113
  - D) 105
7. Which of the following statements is (are) CORRECT about per capita real GDP?
  - A) It reflects a country's standard of living
  - B) It reflects the average income within the economy
  - C) It reflects how changes in the population are reflected in its value
  - D) All of the answers are correct
8. How is the unemployment rate measured?

- A) The number of unemployed divided by the population
  - B) The number of unemployed divided by the number of people under the age of 15
  - C) The number of unemployed divided by the labour force
  - D) The number of unemployed divided by the number of employed
9. What is the ratio of nominal GDP to real GDP defined as?
- A) The CPI
  - B) The GDP deflator
  - C) The value added
  - D) None of the answers is correct
10. If Jupiter has a population of 300,000 people, a labour force of 250,000 people, and 220,000 are employed, what is the unemployment rate?
- A) 14%
  - B) 12%
  - C) 16%
  - D) 10%
11. In the AD/AS model:
- A) An increase in AS (shift down) will cause an increase in equilibrium GDP and a decrease in the GDP deflator (P)
  - B) Increases in either AD or AS will not cause any change in potential output.
  - C) An increase in AD (shift to the right) will cause an increase in both equilibrium real GDP and the GDP deflator (P)
  - D) All the answers are correct
12. 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
13. In the short run, how is it possible that actual GDP can be higher than potential GDP?
- A) By having workers work over-time
  - B) By attracting people to enter the labour force
  - C) By running machines for longer than regular hours
  - D) All of the answers are correct
14. 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) 80
  - B) 100
  - C) 90
  - D) 110

$$150 - Y_{AD} = 10 + Y_{AS}$$

$$140 = Y_{AD} + Y_{AS}$$

$$Y_{AD} = Y_{AS}$$

$$140 = 2Y_{AS}$$

$$Y_{AS} = 70$$

$$150 - 70 = 80$$

15. Continue with question 14: What is the equilibrium output?
- A) 80
  - B) 60
  - C) 70
  - D) 90
16. Short run fluctuations in aggregate demand or aggregate supply cause:
- A) Short run changes on equilibrium real GDP and the GDP deflator.
  - B) Long run changes in the real GDP and the GDP deflator.
  - C) Changes in equilibrium real GDP but no changes in the GDP deflator.
  - D) Changes in the GDP deflator but no change on equilibrium real GDP.
17. What do fiscal policy and monetary policy accomplish?
- A) They can change aggregate demand to eliminate price changes
  - B) They can change potential Y to eliminate output gaps
  - C) They can change aggregate demand to eliminate output gaps
  - D) All of the answers are correct
18. If potential output is higher than short run equilibrium output, eventually input prices will \_\_\_\_ and the short-run aggregate supply curve will shift \_\_\_\_ to bring the economy back to  $Y_p$ .
- A) Rise; right
  - B) Fall; right
  - C) Rise; left
  - D) Fall; left
19. 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 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
20. Why are input prices and final goods and services prices sticky in the short run?
- A) Wages may be subjected to contract terms
  - B) Government legislation, such as minimum wage, limits the downward movements of wages
  - C) It is costly for firms to keep changing prices
  - D) All of the answers are correct
21. What is the difference between the short run aggregate supply and potential output?
- A) In the short run, equilibrium real output is always equal to potential output
  - B) In the short run, equilibrium real output is variable but potential output is fixed
  - C) In the short run, equilibrium output is fixed but potential output is variable
  - D) All of the answers are correct
22. If the price of crude oil increases, which is a main input for firms, what will happen?
- A) The AS shifts to the right

- B) Output falls
  - C) The general price level falls
  - D) All of the answers are correct
23. During the recession in 2009-2010, we can conclude that Canada's actual real GDP was \_\_\_\_\_ potential GDP and actual unemployment rate was \_\_\_\_\_ the natural rate.
- A) Lower than; higher than
  - B) Higher than; lower than
  - C) Higher than; higher than
  - D) Lower than; lower than
24. If aggregate demand exceeds potential output, then the economy's inputs are \_\_\_\_\_ employed and the price level will \_\_\_\_\_.
- A) Under-; rise
  - B) Over-; fall
  - C) Under-; fall
  - D) Over-; rise
25. Which of the following is (are) CORRECT about the  $Y=AE$  model?
- A) The general price level of goods and services is fixed
  - B) The output level is solely determined by the demand side of the economy
  - C) The 45-degree line shows that  $Y=AE$
  - D) All of the answers are correct
26. The multiplier is defined as:
- A) The change in equilibrium real GDP caused by a change in aggregate expenditure (AE)
  - B) The change in the average annual global temperature caused by annual crude oil production
  - C) The change in the general price level caused by a the annual change in population
  - D) The increase in wild sockeye salmon stocks as a result of annual aquaculture output
27. In an open economy with consumption, investment and net export expenditures, what is the equilibrium GDP?
- A) At the level where actual unemployment rate is equal to the natural unemployment rate
  - B) At the level where planned expenditure by households and business equals output
  - C) At the level where imports are equal to zero
  - D) At the level where business inventory is equal to zero
28. Suppose optimism has led the firms to increase their collective expenditure by \$50 billion. Which of the following aggregate expenditure functions will create the largest impact on GDP?
- A)  $AE = 900 + 0.5Y$
  - B)  $AE = 800 + 0.2Y$
  - C)  $AE = 100 + 0.9Y$
  - D)  $AE = 250 + 0.8Y$
29. 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
30. The sources of autonomous expenditure in the economy without a government sector are:
- A) Exports and investment
  - B) Consumption, investment and exports
  - C) Consumption and investment
  - D) Exports and imports
31. Consider a closed economy, in which induced expenditure is  $0.6Y$  and autonomous expenditure is \$200 billion. What is the equilibrium level of income?
- A) \$500 billion
  - B) \$250 billion
  - C) \$1,000 billion
  - D) \$200 billion
32. When the general price level of goods and services is constant in the short run, what can we conclude?
- A) The aggregate supply curve is horizontal
  - B) The aggregate demand curve is horizontal
  - C) The aggregate supply curve is positively sloped
  - D) The aggregate demand curve is negatively sloped
33. If the mpc is 0.75, and the mpm is 0.10, which of the following is CORRECT?
- A) When income changes ( $\Delta Y$ ), induced expenditure will increase by  $0.85\Delta Y$ .
  - B) An increase in national income will not affect induced expenditure.
  - C) When national income rises consumption increases and imports decrease.
  - D) A decrease in national income will reduce induced expenditure by  $0.65\Delta Y$ .
34. Which of the following is (are) CORRECT about autonomous expenditures?
- A) A rise in consumer confidence increases it
  - B) A rise in disposable income increases it
  - C) A rise in autonomous investment changes that slope of the AE curve
  - D) All of the answers are correct
35. If the mpc is equal to 0.75 and the mpm is equal to 0.15, what can we conclude?
- A) A rise in national income will cause a rise in aggregate expenditure
  - B) A change in national income does not change induced expenditures
  - C) Expenditures are high when our income is very low
  - D) All of the answers are correct
36. Which of the following will cause a rightward shift in the aggregate expenditure curve?
- A) A decrease in induced expenditure
  - B) A decrease in autonomous expenditure
  - C) An increase in autonomous expenditure

- D) All of the answers are correct
37. In the  $Y=AE$  model, if  $Y>AE$ , unplanned inventory would \_\_\_\_ and the price level would \_\_\_\_.
- Decrease; increase
  - Increase; stay constant
  - Increase; decrease
  - Increase; increase
38. The multiplier is a number that can be used to predict:
- The fall in induced expenditure caused by a rise in the GDP deflator.
  - The increase in potential output caused by an increase in autonomous expenditure.
  - The increase in wage rates caused by an increase in employment.
  - The fall in equilibrium real GDP caused by a fall in autonomous expenditure.
39. 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?
- With negative GDP gap of 25%, the budget balance is 0
  - There will be zero budget balance when  $Y$  is 900
  - The structural budget balance is 50
  - If  $Y$  increases, the structural budget balance will increase
40. Which of the following is an example of discretionary fiscal policy?
- More people receive employment insurance during economic recession
  - Income tax revenues rise during economic boom
  - Interest rates are cut during economic boom
  - Income tax rates are cut during economic recession
41. Suppose the  $mpc$  is 0.75, the net income tax rate is 0.2, and the marginal propensity to import is 0.1. What is the induced expenditure?
- 0.75Y
  - 0.5Y
  - 0.65Y
  - 0.8Y
42. If the structural budget balance changes from -\$50 billion to -\$25 billion, then which of the following is CORRECT?
- The government has conducted contractionary fiscal policies
  - The interest payments on public debt have decreased
  - The central bank has conducted contractionary monetary policies
  - The economy is currently in a temporary recession
- During the 2008-2010 recession, the Canadian government introduced its fiscal expansionary "Economic Action Plan" to stimulate the Canadian economy. For this time period, we can conclude
43. that the budget balance (BB) of Canada will \_\_\_\_ and the structural budget balance (SBB) of Canada will \_\_\_\_\_. For simplicity, assume that  $BB=SBB=0$  before 2008.
- Decrease; decrease

- B) Increase; stay constant
  - C) Decrease; stay constant
  - D) Increase; decrease
44. A higher net tax rate \_\_\_\_\_ the multiplier, and \_\_\_\_\_ the output effect of autonomous aggregate expenditures shocks.
- A) Increases; dampens
  - B) Increases; stimulates
  - C) Reduces; dampens
  - D) Reduces; stimulates
45. Suppose we observe that the government has an actual budget deficit of \$20 billion. What can we conclude?
- A) The economy was in a recession
  - B) Discretionary fiscal policy was expansionary
  - C) Discretionary fiscal policy was contractionary
  - D) We cannot identify the current state of discretionary fiscal policy
46. For a given fluctuation in autonomous expenditure, economies with higher income tax rate  $t$  will:
- A) Experience smaller 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 no business cycle fluctuations in real GDP and employment
  - D) Experience some business cycle fluctuations in real GDP and employment but the fluctuations are independent of  $t$
47. How do government activities affect aggregate demand?
- A) Through purchases of goods and services
  - B) Through importing products from abroad
  - C) Through making transfer payments to individuals
  - D) All of the answers are correct
48. Which of the following is (are) automatic stabilizer(s)?
- A) Employment insurance premiums
  - B) Income taxes
  - C) Goods and Services taxes
  - D) All of the answers are correct
49. For a given fluctuation in autonomous expenditure, economies with lower rates of induced expenditures will:
- A) Experience larger business cycle fluctuations in real GDP and employment
  - B) Experience no business cycle fluctuations in real GDP and employment
  - C) Experience smaller business cycle fluctuations in real GDP and employment
  - D) Experience some business cycle fluctuations but the size of the fluctuations is independent of the slope of the AE curve



50. If the tax rate  $t$  rises, then:

- A) The BB line will shift upward with no change in slope
- B) The BB line will pivot upward, making it steeper
- C) The BB line will shift downward with no change in slope
- D) The BB line will pivot downward, making it flatter