

CONCORDIA UNIVERSITY
Department of Economics
ECON 203/4 SECTION D
Introduction to Macroeconomics
Winter 2018 – MIDTERM B
Thursday, March 1, 2018, 2:45 – 4:00 pm

Instructions: The examination is to be answered in the space provided, and is valued at 20% of your final grade in this course. All questions are to be answered on the opscan sheet provided. **Please do not answer any of the questions on the examination sheet.** Once complete, you are to hand in the examination questions and answer sheet. Good Luck!

Introduction to Macroeconomics - B

1. If the AD curve shifts \$20 billion to the right when autonomous spending rises by \$2 billion, the aggregate expenditure model says that the multiplier is equal to ___ and the price level will ____.
A) 5; remain constant
B) 5; rise
C) 10; rise
D) 10; remain constant
2. 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
3. If the United Kingdom introduced austerity plans into its economy in an effort to reign in its public debts by cutting government expenditure on education, health care and the hiring of public servants. Which of the following observations will lessen the negative impact of these spending cuts on the United Kingdom's GDP?
A) Their rate of induced expenditure ($\Delta AE / \Delta Y$) is very low
B) Their marginal propensity to import is very low
C) Their income tax system is a lump sum or constant tax system
D) All of the answers are correct
4. 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) No effect on the level of GDP
B) GDP will fall
C) GDP will rise
D) GDP may rise or fall depending on the size of the mpc
5. 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) 2
B) 3.5
C) 2.5
D) 3
6. 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) \$1,200
 - B) \$1,600
 - C) \$1,000
 - D) \$1,400
7. In an economy where there are only consumption expenditure and investment expenditure, what is the value of saving when $Y=AE$?
- A) Equal to investment
 - B) Some positive value
 - C) Zero
 - D) Some negative value
8. 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; lower than
 - B) Higher than; lower than
 - C) Higher than; higher than
 - D) Lower than; higher than
9. Suppose the population of Mars is 6,430. Of all adult Martians, 4,750 were employed, 500 were unemployed, and 300 were not in the labor force. How people are under the age of 15?
- A) 550
 - B) 770
 - C) 660
 - D) 880
10. What do fiscal policy and monetary policy accomplish?
- A) They can change aggregate demand to eliminate price changes
 - B) They can change aggregate demand to eliminate output gaps
 - C) They can change potential Y to eliminate output gaps
 - D) All of the answers are correct
11. 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) With negative GDP gap of 20%, the budget balance is -20
 - B) The structural budget balance is 20
 - C) With negative GDP gap, the structural budget balance will be larger than 20
 - D) There will be zero budget balance when Y is 900
12. In the $Y=AE$ model, if $Y>AE$, unplanned inventory would _____ and the price level would _____.
- A) Increase; decrease

- B) Decrease; increase
- C) Increase; stay constant
- D) Increase; increase

13. The actual (observed) government balance depends simply on:

- A) The net tax rates set by the government
- B) Government net tax rates, government expenditures on goods and services and the actual level of nominal GDP
- C) Government expenditures on goods and services
- D) Government support for social programs and national defense

14. How is the expenditure-based GDP measured?

- A) $C + I + G + \text{Imports} - \text{Exports}$
- B) $C + I + G + \text{capital consumption allowance}$
- C) $C + I + G + \text{Exports} - \text{Imports}$
- D) None of the answers is correct

15. How is economic growth measured?

- A) The percentage change in income taxes collected by the government
- B) The percentage change in the unemployment rate
- C) The percentage change in real GDP
- D) The percentage change in the employment rate

16. The structural budget balance evaluates the budget balance when the economy is ____.

- A) At its current actual GDP
- B) In a recession
- C) In a boom
- D) At potential GDP

17. Which of the following statements is INCORRECT?

- A) Canada's natural unemployment rate is around 10%
- B) Canada's real GDP growth rate in 2011 was around 2.5%
- C) Canada experienced an economic recession in 2009
- D) Canada's Finance Minister in 2012 was James Flaherty

18. 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; decrease
- B) Increase; increase
- C) Increase; decrease

D) Decrease; increase

19. Which of the following always correspond(s) to a fall in the short run output?
- A) The resulting price level falls
 - B) The AD shifts up
 - C) The AS shifts down
 - D) None of the answers is correct
20. Suppose our nominal wage rate is \$12 per hour, and the CPI is 135. Our labor union believes that the CPI for next year will increase to 162. If we want to maintain a constant real wage, what nominal wage should our union ask for?
- A) \$19.44
 - B) \$14.4
 - C) \$23.64
 - D) \$15.24
21. 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) 0.5
 - B) 0.6
 - C) 0.64
 - D) 0.16
22. If aggregate demand exceeds potential output, then the economy's inputs are _____ employed and the price level will ____.
- A) Over-; rise
 - B) Over-; fall
 - C) Under-; fall
 - D) Under-; rise
23. Continue with question 22: Eventually, the _____ will shift to bring the actual Y back to Y_p . This will lead to a _____ price level in the long run.
- A) AS; higher
 - B) AS; lower
 - C) AD; lower
 - D) AD; higher
24. If induced spending increases from \$300 to \$315 when national income increases from \$500 to \$525, then the (mpc - mpm) is equal to ____.
- A) 0.8
 - B) 0.9

- C) 0.7
- D) 0.6

25. Suppose in an economy the slope of the AE function is 0.75. What is the value of the goods market multiplier?

- A) 2
- B) 4
- C) 5
- D) 3

26. 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) Income tax revenues rise during economic boom
- D) Interest rates are cut during economic boom

27. For a given change in autonomous expenditure, economies with lower income tax rate t will:

- A) Experience larger business cycle fluctuations in real GDP and employment
- B) Experience smaller business cycle fluctuations in real GDP and employment
- C) Experience larger business cycle fluctuations in real GDP and employment only if the government runs a balanced budget
- D) Experience no business cycle fluctuations in real GDP and employment

28. When does potential output Y_p change?

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

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

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

30. We cannot look at the direction of discretionary fiscal policy by looking at the changes in the actual fiscal budget. What is the reason?

- A) Those changes may reflect the changes in investment confidence
- B) Those changes may reflect the changes in consumption habits
- C) Those changes may reflect changes in the tax revenues as a result of the change in potential GDP

- D) Those changes may reflect changes in the tax revenues as a result of the change in GDP
31. When does public debt accumulate?
- A) When the economy is in an economic boom
 - B) When budget balance becomes more negative
 - C) When discretionary fiscal policies are contractionary
 - D) When budget balance becomes more positive
32. For a given fluctuation in autonomous expenditure, economies with lower rates of induced expenditures will:
- A) Experience smaller business cycle fluctuations in real GDP and employment
 - B) Experience larger business cycle fluctuations in real GDP and employment
 - C) Experience no 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
33. Suppose autonomous expenditure is 230 and induced expenditure is $0.6Y$. What is the equilibrium Y ?
- A) \$700
 - B) \$625
 - C) \$575
 - D) \$600
34. The government's budget balance depends on:
- A) Canada's imports and exports of goods and services
 - B) The tax rates, expenditures set by government and the level of GDP determined by $AD=AS$
 - C) The level of potential output determined by the labour force, the capital stock and technology
 - D) The tax rate set by government and government expenditure on goods and services
35. 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
36. In an open economy with consumption, investment and net export expenditures, what is the equilibrium GDP?
- A) At the level where planned expenditure by households and business equals output
 - B) At the level where business inventory is equal to zero
 - C) At the level where imports are equal to zero
 - D) At the level where actual unemployment rate is equal to the natural unemployment rate

49. The aggregate demand function is derived from which of the following concepts?
- A) The income approach used in national accounts to measure GDP
 - B) The total product 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
50. Which of the following is (are) CORRECT about the $Y=AE$ model?
- A) Input prices are fixed
 - B) It is a long run model
 - C) The AS supply side determines the amount of output to be produced in the economy
 - D) All of the answers are correct