100 Random Practice, Macroeconomics

100 practice questions randomly chosen by computer from the text’s test bank for Chapters 19 through 30 plus 32 and 35. The Prof. has not seen these questions, so as to avoid them influencing his choice of questions for the Final. As such, he can’t state whether the degree of difficulty of these practice questions, on average, is more, less or the same as you should expect for the final. The answers are listed at the end.

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

1) Suppose Canada’s exchange rate with the euro rises from 1.2 to 1.4. This rise indicates a(n) _______ of the Canadian dollar, which means it takes _______ Canadian dollars to purchase one euro.
   A) depreciation; fewer        B) appreciation; more
   C) depreciation; more         D) appreciation; fewer

2) Most economists believe that the single largest cause of rising material living standards over long periods of time is
   A) real GDP growth.
   B) productivity growth.
   C) rising real wages.
   D) growth in the capital stock.
   E) rising employment.

3) Economists expect some unemployment to exist even at times of “full employment” for all of the following reasons EXCEPT:
   A) there is sometimes a mismatch between the characteristics of the supply of labour and the demand for labour.
   B) as the economy changes, the structure of the existing labour force is not the same as the structure of labour demand.
   C) there are always some people who quit their present jobs to look for other jobs.
   D) actual GDP is rarely equal to potential GDP.
   E) people entering the labour force typically take some time to find a job.

4) If a country’s labour force is 15 million people, and 1.35 million of those are unemployed, the country’s unemployment rate is
   A) 2.5 percent.
   B) 3.3 percent.
   C) 4.5 percent.
   D) 6.7 percent.
   E) 9.0 percent.

5) A worker currently earning $3000 per month has negotiated a 4% wage increase in anticipation of a 4% inflation rate in the next year. Under what scenario will the worker have a higher purchasing power?
   A) if next year’s inflation rate is 4%
   B) if next year’s inflation rate is 3%
   C) if next year some prices increase by only 5%
   D) if next year’s inflation rate is 5%
   E) if next year some prices increase by only 4%
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6) Suppose Appliance Mart buys a used refrigerator for $100, repairs it, and resells it for $250. The result of this transaction is to
   A) increase the value of national product by $150.
   B) increase the value of national product by $250.
   C) decrease the value of national product by $100.
   D) leave the value of national product unchanged.
   E) insufficient information to know.

7) In the study of short-run fluctuations in national income, potential income (output) is usually assumed to be
   A) falling at its average growth rate.
   B) irrelevant, as the economy is rarely there.
   C) constant.
   D) equal to actual income.
   E) moving together with potential output in neighbouring countries.

8) The "value added" for an individual firm is calculated by
   A) adding the cost of the intermediate goods used by the firm.
   B) adding up the income received by the factors of production used by the firm.
   C) subtracting the income that goes to the factors of production used by the firm from the firm’s revenue.
   D) calculating the revenue generated by the firm.
   E) calculating the profit generated by the firm.

9) In the national income and product accounts, a reduction of inventories counts as
   A) negative investment.
   B) saving.
   C) positive investment.
   D) depreciation.
   E) consumption.

The table below shows total output for an economy over 2 years.

<table>
<thead>
<tr>
<th>Year</th>
<th>Price</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>Good A</td>
<td>$1.00</td>
</tr>
<tr>
<td></td>
<td>Good B</td>
<td>$2.00</td>
</tr>
<tr>
<td></td>
<td>Good C</td>
<td>$5.00</td>
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<tr>
<td>2008</td>
<td>Good A</td>
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<tr>
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<td>Good B</td>
<td>$3.00</td>
</tr>
<tr>
<td></td>
<td>Good C</td>
<td>$10.00</td>
</tr>
</tbody>
</table>

TABLE 20–3

10) Refer to Table 20–3. The nominal Gross Domestic Product in 2008 was
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11) Which of the following is the most appropriate measure for evaluating the average material living standards of Canadian residents?
A) per capita Gross Domestic Product
B) per capita Net National Product
C) disposable income
D) per capita Gross National Product
E) Net Domestic Income at Factor Cost

12) Statistics Canada excludes from GDP the value of goods and services exchanged "under the counter" because
A) satisfactory methods for their measurement have not been developed.
B) these goods are all intermediate goods.
C) their production has zero opportunity cost.
D) Statistics Canada is responsible for making an ethical decision about which activities to exclude from national income measures.
E) these goods do not contribute to well-being.

![Nominal GDP vs Real GDP graph]

FIGURE 20-1

13) Refer to Figure 20-1. Which of the following years was used as the base year for constructing real GDP?

14) Consider a simple macro model with a constant price level and demand-determined output. If the marginal propensity to spend in such a model is between zero and one, the simple multiplier is
A) zero.
B) a positive number between zero and one.
C) one.
D) a positive number greater than one but less than infinity.
E) infinitely large.
15) Refer to Figure 21-1. Desired consumption expenditures will equal disposable income at an income level of
A) \( Y_2 \).
B) \( Y_3 \).
C) \( Y_1 \).
D) more than \( Y_3 \).
E) zero.

16) In the simple macroeconomic model, "autonomous expenditures" are
A) those which are constant.
B) dependent on national income.
C) induced expenditures.
D) non-domestic expenditures.
E) not dependent on national income.

17) Consider a simple macro model with a constant price level and demand-determined output. Suppose the level of actual national income is less than desired aggregate expenditure. In this case,
A) national income may increase or decrease, depending on the relative sizes of the average propensity to consume and the average propensity to save.
B) shortages of goods and reductions in inventories will cause producers to increase output and national income to rise.
C) national income will fall, because desired expenditures are less than actual expenditures.
D) inventories will build up, causing national income to rise.
E) there will be no change in national income because only actual expenditure is relevant.
18) Jean Brisbois’ disposable income rose from $40 000 per year to $42 000 and his desired consumption expenditure rose from $38 000 to $39 600. It can be concluded that his
A) average propensity to save decreased from 0.950 to 0.943.
B) marginal propensity to save is 0.80.
C) marginal propensity to consume increased from 0.050 to 0.058.
D) average propensity to consume decreased from 0.950 to 0.943.
E) marginal propensity to consume is 0.050.

19) Total desired saving divided by total income is called the
A) total propensity to save.
B) average propensity to consume.
C) average propensity to save.
D) marginal propensity to save.
E) average propensity to spend.

20) We would expect real national income to be “demand determined” when
A) the price level is assumed to be constant.
B) firms have excess capacity.
C) there are unemployed resources in the economy.
D) firms are price setters.
E) all of the above

21) Transfer payments made by the government affect its net tax revenues
A) indirectly through government purchases.
B) indirectly through the consumption function.
C) indirectly through net exports.
D) indirectly through the investment function.
E) directly.

22) Consider a macro model with demand–determined output. The equations are: \( C = 150 + 0.8Yd \), \( Yd = Y - T \), \( I = 400 \), \( G = 700 \), \( T = 0.2Y \), \( X = 130 \), and \( IM = 0.14Y \). Equilibrium national income in this model is _______.
A) 1 120  B) 1 350  C) 2 240  D) 2 760  E) 5 400

23) Consider a macro model in which output is assumed to be demand–determined. One situation which may justify this assumption is when
A) net exports are negative.
B) the marginal propensity to consume out of disposable income is equal to the marginal propensity to spend out of national income.
C) net exports are positive.
D) the economy is operating with some unemployed resources.
E) all resources in the economy are fully employed.

24) When determining the \( AE \) function for an open economy with government, it is generally assumed that as real national income
A) increases, net exports will decrease.
B) decreases, exports will decrease.
C) increases, imports will decrease.
D) increases, exports will decrease.
E) decreases, net exports will decrease.
25) Refer to Figure 23-2. Suppose that an increase in government purchases by 50 causes the AD curve to shift to the right, as shown. The simple multiplier is _______ and the multiplier is _______.
   A) 6; 1.2  B) 2.8; 1.2  C) 4; 3.2  D) 4; 2.8  E) 4; 1.2

26) Other things being equal, when the domestic price level falls exogenously,
   A) the aggregate expenditure function shifts downward.
   B) imports of foreign goods rise.
   C) the net export function shifts upward.
   D) the net export function shifts downward.
   E) Canadian goods become more expensive relative to foreign goods.

27) Aggregate supply shocks cause the price level and real GDP to change in
   A) opposite directions but by the same amount.
   B) the same direction and by the same amount.
   C) the same direction with price changing by more than output.
   D) opposite directions with price changing by less than output.
   E) opposite directions but not necessarily by the same amount.

28) Over the horizontal range of the economy’s AS curve (if such a range exists), a rightward shift of the AD curve will result in
   A) an increase in real GDP and no change in prices.
   B) an increase in prices and no change in real GDP.
   C) an increase in both real GDP and prices.
   D) a decrease in real GDP but no change in prices.
   E) a decrease in both real GDP and prices.
29) In a macro model with a constant price level, an increase in autonomous desired consumption will cause the AE curve to shift
   A) downward and the AD curve to shift to the right.
   B) downward and the AD curve to shift to the left.
   C) upward and the AD curve to shift to the left.
   D) upward and a movement to the right along the AD curve.
   E) upward and the AD curve to shift to the right.

30) An important automatic fiscal stabilizer in Canada is
   A) the marginal propensity to import.
   B) the exchange rate.
   C) government purchases of goods and services.
   D) the marginal propensity to consume.
   E) the income-tax system.

The diagram below shows an AD/AS model for a hypothetical economy. The economy begins in long-run equilibrium at point A.

![Diagram of AD/AS model](image)

**FIGURE 24-4**

31) Refer to Figure 24-4. After the positive aggregate supply shock shown in the diagram, which of the following would shift the AS curve leftward during the economy’s adjustment process?
   A) an increase in the unemployment rate
   B) an increase in wages and other factor prices
   C) an increase in labour productivity
   D) an increase in factor supplies
   E) a decrease in wages and other factor prices
32) Refer to Figure 24-3. The economy cannot be in long-run equilibrium at E₁ because the  
A) AD₁ curve will shift back to the left due to a fall in current consumption.  
B) AS will shift to the left due to an increase in wages.  
C) AS will shift to the left due to an increase in the price level.  
D) AD₁ curve will shift back to AD₀ due to an increase in the price level.  
E) AS will shift to the right due to a decrease in the price level.

33) Which of the following describes the distinction between the Phillips curve and the AS curve?  
A) The AS curve has the price level on the vertical axis whereas the Phillips curve has the rate of  
   wage changes on the vertical axis.  
B) The AS curve has the rate of price inflation on the vertical axis whereas the Phillips curve has  
   the rate of wage changes on the vertical axis.  
C) The AS curve has the price level on the vertical axis whereas the Phillips curve has the rate of  
   change in the interest rate on the vertical axis.  
D) The AS curve has the price level on the vertical axis whereas the Phillips curve has the  
   interest rate on the vertical axis.  
E) There is no distinction: the two curves are essentially the same thing.

34) Consider the AD/AS model, and suppose that the economy begins at potential output. The effect of  
   a positive AS shock on real GDP will be reversed in the long run with a ______ shift in ______.  
   A) rightward; AD  
   B) leftward; AS  
   C) leftward; Y*  
   D) leftward; AD  
   E) rightward; AS
35) GDP can be represented by the equation: GDP = F x (Fe/F) x (GDP/Fe). In this equation, the term (Fe/F) represents
A) income per person.
B) factor supply per level of output.
C) the factor-utilization rate.
D) factor productivity.
E) output per capital.

36) At any given time, the level of potential GDP depends on
A) the productivity of factors of production.
B) normal rates of utilization for labour and capital.
C) a given amount of available factors of production.
D) all of the above
E) none of the above

37) For the economy as a whole, changes in the factor-utilization rate are associated with short-run fluctuations in output because
A) firms cannot change their prices in the short run.
B) the short-run fluctuations in factor supplies and productivity cancel each other out.
C) potential output is affected by the factor-utilization rate in the short run.
D) it is cheaper for firms to let their inventories accumulate than to employ more workers.
E) factor prices can only fully adjust in the long run.

38) On the basis of both theory and empirical evidence, most economists believe that changes in monetary policy have
A) powerful effects on real GDP and factor prices both in the short run and in the long run.
B) no long-run effect on real GDP but a substantial long-run effect on inflation.
C) no effect on real GDP or inflation in the long run.
D) no effect on real GDP or factor utilization in the short run.
E) important long-run effects by changing real interest rates.

39) The four fundamental determinants of economic growth include all of the following EXCEPT:
A) growth in financial capital
B) growth in human capital
C) growth in physical capital
D) growth in the labour force
E) technological improvement

40) One important assumption of the Neoclassical growth model is that, with a given state of technology,
A) increases in the use of single factor bring diminishing returns.
B) increases in the use of a single factor result in constant returns.
C) increases in GDP are possible only if all factors are increased at an equal rate.
D) the return from successive units of a single factor increases over time.
E) increases in the use of a single factor bring increasing returns.
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41) According to some modern theories of long-run growth, successive increments of investment have ______ returns since some fixed costs are ______ for subsequent firms.
   A) decreasing; lower
   B) increasing; lower
   C) decreasing; higher
   D) constant; identical
   E) increasing; higher

42) In the Neoclassical growth model, if capital and labour grow at the same rate, we will observe ______
   A) rising GDP but no change in living standards.
   B) rising GDP and increasing living standards.
   C) increasing living standards but only for workers using labour-intensive production.
   D) rising GDP but falling living standards.
   E) increasing living standards but only for workers using capital-intensive production.

43) A central bank can "create" money by ______
   A) selling some of its foreign-currency reserves for domestic currency.
   B) increasing the rate of inflation.
   C) selling government Treasury bills to the commercial banks.
   D) purchasing government securities on the open market.
   E) issuing its own Central Bank bonds.

44) Consider a new deposit of $10 000 to the Canadian banking system. The bank that initially receives this deposit will find itself with ______
   A) no excess reserves if there is no reserve requirement.
   B) $1 000 of excess cash reserves if its target reserve ratio is 10 percent.
   C) $2 000 of excess cash reserves if its target reserve ratio is 10 percent.
   D) $8 000 of excess cash reserves if its target reserve ratio is 20 percent.
   E) $10 000 of excess cash reserves if its target reserve ratio is 100 percent.

45) If the Bank of Canada enters the open market and sells $1000 of government securities, what will be the eventual change in the money supply given a 10 percent target reserve ratio in the commercial banking system and a 10 percent cash drain ______
   A) increase of $10 000
   B) decrease of $1000
   C) decrease of $10 000
   D) increase of $5000
   E) decrease of $5000

46) "Excess reserves" for a commercial bank refer to ______
   A) any surplus in the bank's supply of gold.
   B) any surplus of chequable deposits.
   C) any reserves (cash or deposits with the Bank of Canada) that the bank holds over and above its desired reserves.
   D) excess demand for money from that bank.
   E) reserves (cash or deposits with the Bank of Canada) that the Bank of Canada requires the bank to hold.
47) Suppose that at a given interest rate and money supply, all firms and households simultaneously try to reduce their money balances. They do this by trying to ________, which causes an excess ________, which causes a(n) ________, and finally a(n) ________ in the interest rate.

A) buy bonds; supply of bonds; decrease in the price of bonds; increase
B) sell bonds; demand for bonds; increase in the price of bonds; decrease
C) buy bonds; demand for bonds; increase in the price of bonds; decrease
D) sell bonds; supply of bonds; decrease in the price of bonds; increase
E) sell bonds; supply of bonds; increase in the price of bonds; decrease

48) According to the views of the Classical economists, if the money supply doubles,

A) real income will double.
B) there will be no effect on money prices.
C) money prices will be halved.
D) relative prices will double.
E) money prices will double.

49) Refer to Figure 28-2. Starting at equilibrium $E_0$, an increase in real GDP will lead to a

A) shift of the $M_D$ curve to the right and an increase in the interest rate.
B) shift of the $M_S$ curve to the right and a fall in the interest rate.
C) shift of the $M_D$ curve to the left and a fall in the interest rate.
D) downward movement along the $M_D$ curve and a lower interest rate.
E) shift of the $M_S$ curve to the left and an increase in the interest rate.
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50) The monetary transmission mechanism describes how changes in the demand for or supply of money cause changes in the interest rate, which then cause changes in
   A) aggregate demand, real GDP and the price level.
   B) desired investment and net exports.
   C) the inflation rate.
   D) potential output.
   E) both A and B are correct.

51) In 1994, the federal minister of finance (Paul Martin) appointed Gordon Thiessen as the new governor of the Bank of Canada, who proceeded to
   A) increase the overnight lending rate in order to stabilize the Canadian–U.S. exchange rate.
   B) continue the tough and unpopular contractionary monetary policy of his predecessor.
   C) continue the popular low overnight lending policy of his predecessor.
   D) abandon the tough and unpopular contractionary monetary policy of his predecessor in favour of a low-interest-rate policy.
   E) abandon the tough and unpopular contractionary monetary policy of his predecessor in favour of a policy designed to depreciate the Canadian dollar.

52) If we observe that the bank rate has fallen, we can conclude that the
   A) Bank of Canada has adjusted the rate it pays on Treasury bills.
   B) Bank of Canada has implemented an expansionary monetary policy.
   C) Bank of Canada has implemented a contractionary monetary policy.
   D) Bank of Canada has abandoned its inflation target.
   E) Government of Canada has reduced the money supply.

53) A measure that has been developed to analyze the amount of output that must be given up in order to reduce the inflation rate by one percentage point is called the
   A) Phillips measure.
   B) credibility index.
   C) misery index.
   D) sacrifice ratio.
   E) output gap.

54) Suppose the Canadian economy is booming due to rising net exports and there is political pressure to maintain the "good times". If the Bank of Canada does so by implementing an expansionary monetary policy, it would
   A) cause a permanent recessionary gap.
   B) increase the actual inflation rate.
   C) cause a temporary drop in inflation.
   D) be acting to de-stabilize the economy.
   E) Both B and D are correct.

55) The sacrifice ratio is a measure of the
   A) the crowding out of investment due to increases in government purchases.
   B) number of people unemployed due to disinflation.
   C) loss of real GDP associated with inflation.
   D) unemployment associated with a recessionary gap.
   E) cumulative loss in real GDP due to a disinflation.
56) Consider an open-economy AD/AS macro model. An expansionary fiscal policy will generally increase the government’s budget _______ and also tends to _______ and thus _______ net exports.
   A) none of the above
   B) surplus; depreciate the currency; increase
   C) deficit; appreciate the currency; reduce
   D) surplus; appreciate the currency; decrease
   E) deficit; appreciate the currency; increase

The diagram below shows two budget deficit functions for a hypothetical economy.

![Diagram showing budget deficit functions]

57) Consider Figure 32–3. Initially, suppose that real GDP is $100 million and the budget deficit is $14 million, as shown by point A. Which of the following events could result in a move from point A to point B?

   A) the economy entering into a boom
   B) the implementation of a contractionary fiscal policy
   C) the implementation of an expansionary fiscal policy
   D) the implementation of an expansionary monetary policy
   E) the implementation of a contractionary monetary policy

58) Implementation of cyclically balanced government budgets

   A) is easier with frequent changes in political power.
   B) requires precise prediction of potential GDP to pinpoint the stages of the business cycle.
   C) results in larger output gaps than with annually balanced budgets.
   D) eliminates the need for built-in fiscal stabilizers.
   E) none of the above.
59) If Canada’s current account is in deficit, then we can be sure that there is a ______ on the capital account, which means a capital ______ to (from) Canada.
   A) deficit; outflow  
   B) deficit; inflow  
   C) surplus; inflow  
   D) surplus; outflow  
   E) none of the above

60) China fixes its exchange rate (yuan per units of foreign currency) at a rate well above its free-market equilibrium level. In order to maintain this exchange rate, and to prevent its currency from ______, the Chinese central bank is rapidly accumulating ______.
   A) appreciating; foreign-exchange reserves  
   B) appreciating; reserves of its domestic currency  
   C) depreciating; reserves of its domestic currency  
   D) depreciating; U.S. dollars  
   E) depreciating; foreign-exchange reserves

61) The ______ represents the difference between the payments and receipts from international transactions in goods and services. The ______ represents the difference between payments and receipts from international transactions in assets.
   A) trade balance; official-financing account  
   B) merchandise account; investment account  
   C) capital outflow; capital inflow  
   D) trade balance; capital-service account  
   E) current account balance; capital account balance

62) Suppose actual output is less than potential output. If the output gap measures the output loss due to the failure to achieve full employment, it can generally be concluded that the larger this output gap, the
   A) lower the deadweight loss of unemployment.  
   B) greater is the unemployment rate.  
   C) greater is the employment rate.  
   D) lower is frictional unemployment.  
   E) more upward pressure there is on prices.

63) Inflation, the rate of change of average prices in the economy, generally
   A) has no real effects if it is unanticipated.  
   B) reduces the real value of existing nominal debt.  
   C) increases the purchasing power of money.  
   D) increases the real value of fixed money incomes.  
   E) benefits creditors if it is unanticipated.

64) Real GDP is equivalent to
   A) personal disposable income plus depreciation.  
   B) the market value of all goods and services produced in an economy per year.  
   C) the nominal value of GNP multiplied by the GDP deflator.  
   D) the money value of all goods and services produced in an economy per year plus imports.  
   E) the value of all goods and services produced in an economy per year adjusted for price changes.
The table below includes data required to calculate GDP from the expenditure side.

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<td>Net exports</td>
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**TABLE 20–1**

65) Refer to Table 20–1. What is the value of GDP?  
A) $2285.20  B) $1982.60  C) $2010.00  D) $2584.40  E) $1986.00

66) If the Jones family’s disposable income increases from $1 200 to $1 700 and their desired saving increases from −$100 to +$100, then the family’s  
A) average propensity to consume is 0.60.  
B) marginal propensity to consume is 0.40.  
C) marginal propensity to save is 1.  
D) marginal propensity to consume is 0.60.  
E) average propensity to consume is 0.40.

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<td>150</td>
<td>70</td>
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<tr>
<td>300</td>
<td>130</td>
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**TABLE 21–6**

67) Refer to Table 21–6. The marginal propensity to consume is equal to  
A) 0.6.  B) 0.8.  C) 0.2.  D) 0.67.  E) 0.4.

68) Suppose G = 300 and the government’s net tax revenue is equal to 0.12Y. The government budget is balanced when Y equals  
A) 350  B) 1 000  C) 2 000  D) 2 500  E) 3 600

69) Suppose exports (X)=100, Y=500, and imports are equal to mY, where m is the marginal propensity to import. Net exports would be equal to zero if the marginal propensity to import were  
A) 1 percent.  B) 5 percent.  C) 10 percent.  D) 20 percent.  E) 50 percent.
70) On a graph that shows the derivation of the AD curve, an exogenous change in the price level causes
A) a shift in the AE curve and a movement along the AD curve.
B) a movement along the AE curve but not along the AD curve.
C) a movement along both the AE and AD curves.
D) a shift in both the AE and AD curves.
E) a movement along the AE curve and a shift in the AD curve.

71) One reason why the aggregate demand (AD) curve slopes downward is that
A) aggregate expenditure increases as the price level rises.
B) decreases in the price level cause increases in private-sector wealth which lead to increases in desired consumption.
C) increased production results in lower production costs.
D) when the price level falls consumers increase their saving rate.
E) when the price level falls firms must compete more when output increases.

72) Suppose that the government announces temporary tax cuts to stimulate consumers' consumption expenditures but the impact of this tax change on consumption is observed to be very small. This outcome might be explained by the fact that
A) the impact of the policy is dampened by the automatic fiscal stabilizers.
B) the consumers anticipate that the tax change is only temporary and thus is unlikely to affect their "lifetime" income.
C) this economy is suffering from the paradox of thrift.
D) this economy is already at its long-run equilibrium.
E) the government has little credibility.

73) Which of the following will occur as part of the automatic adjustment process in an economy with an inflationary gap?
A) increasing investment
B) rising wages
C) increasing tax rates
D) declining government purchases
E) falling prices

74) In Canada, the labour-force participation rate is about
A) 66 percent.
B) 76 percent.
C) 92 percent.
D) 86 percent.
E) 90 percent.

75) One of the benefits of long-run economic growth is
A) growth in nominal GDP greater than real GDP.
B) a greater ability to reduce inequality.
C) increased future interest rates.
D) decreased productive capacity.
E) decreased current saving and increased current consumption.
76) If Canadian households and businesses refused to accept Canadian dollars in exchange for goods and services, the value of the Canadian dollar would
A) fall.
B) stay constant since its value is determined only by the Bank of Canada.
C) stay constant since the value does not depend on people's acceptability of it.
D) rise since less would be in circulation.
E) stay constant since its value is determined only by the Government of Canada.

77) If real GDP falls, other things being equal, we can expect
A) an increase in the speculative demand for money.
B) a decrease in transactions demand for money.
C) an increase in transactions demand for money.
D) an increase in the total demand for money.
E) an increase in precautionary demand for money.

78) Because of the volatility of food and energy prices, the Bank of Canada pays more attention in the short run to changes in ________ than to changes in ________.
A) core inflation; total CPI inflation
B) inflation of the GDP deflator; total CPI inflation
C) the nominal exchange rate; the real exchange rate
D) total CPI inflation; core inflation
E) total CPI inflation; inflation of the GDP deflator

79) Assume your salary is $2000 per month and your employer gives you a raise of 6 percent. Over the next twelve months the inflation rate is 12 percent. Your real salary will change by
A) + 6 percent.
B) - 6 percent.
C) - 12 percent.
D) +12 percent.
E) 0 percent.

80) If the Canadian federal government adopted a formal balanced budget rule, during times that GDP was falling it would have to
A) increase tax rates and/or increase spending which would destabilize the economy.
B) decrease interest payments on the debt.
C) increase tax rates and/or decrease spending which would destabilize the economy.
D) decrease tax rates and/or increase spending which would destabilize the economy.
E) decrease spending and transfer payments while holding tax rates constant.

81) Suppose that a country's private saving is $4 million, its investment is $10 million, government purchases are $6 million, and net tax revenues are $15 million in a given year. The current account balance for this country is a
A) surplus of $9 million.
B) surplus of $15 million.
C) deficit of $9 million.
D) surplus of $3 million.
E) deficit of $6 million.
82) Suppose Canada’s exchange rate with the U.S. dollar falls from 1.21 to 1.13. This fall indicates a(n) [underline] [underline] of the Canadian dollar, which means it takes [underline] Canadian dollars to purchase one U.S. dollar.
   A) depreciation; more  B) depreciation; fewer
   C) appreciation; more   D) appreciation; fewer

83) Transfer payments are excluded from the government component in the calculation of GDP because
   A) they are small enough to ignore when computing the national accounts.
   B) they are not counted as income by any economic agent.
   C) it is difficult to assess the market value of a transfer payment.
   D) they do not generate additional income in the economy.
   E) they do not represent the purchase of a good or a service.

84) Aggregate desired consumption divided by aggregate disposable income is called the
   A) total propensity to save.
   B) average propensity to consume.
   C) average propensity to save.
   D) marginal propensity to save.
   E) average propensity to spend.

85) Consider the following news headline: "Finance minister announces that the federal income-tax rate will rise by three percentage points." Assuming that aggregate output is demand-determined, what will be the effect of this action, all other things equal, on the AE function and equilibrium national income?
   A) the AE function will rotate upward (become steeper) and equilibrium national income will rise.
   B) there will be no change in the AE function or in equilibrium national income.
   C) the AE function will shift down parallel to itself and equilibrium national income will fall.
   D) the AE function will shift up parallel to itself and equilibrium national income will rise.
   E) the AE function will rotate downward (become flatter) and national income will fall.

86) A leftward shift in the economy’s AS curve implies that
   A) at any given price level, a lower level of output will be supplied.
   B) there is a demand shock.
   C) there is a decrease in aggregate supply.
   D) at any given price level, a higher level of output will be supplied.
   E) both A and C are correct.

87) A common assumption among macroeconomists is that when real GDP is less than potential output, factor prices adjust and the
   A) AS curve shifts to the left fairly rapidly.
   B) AS curve shifts to the right very rapidly.
   C) AD curve shifts to the left rapidly.
   D) AS curve shifts to the right only very slowly.
   E) none of the above -- the AS curve remains unchanged.
88) GDP can be represented by the equation: \( GDP = F \times (Fe/F) \times (GDP/Fe) \). This equation tells us that real aggregate output can be expressed as factor
A) supply times equilibrium factor price times factor productivity.
B) utilization times equilibrium factor price times factor productivity.
C) supply times the equilibrium factor price times GDP per capita.
D) supply times the factor–utilization rate times factor productivity.
E) price times the utilization rate times GDP per capita.

89) In Neoclassical growth theory, average material living standards in an economy could fall when
A) additional units of capital are added to the other factors.
B) there is a decline in the population.
C) there is equal percentage growth in capital and labour inputs.
D) technology improves.
E) additional units of labour are added to the other factors.

90) Suppose that the cash drain in the banking system increases during holiday periods. As a result,
A) the capacity of the banking to create deposit money is increased during holiday periods.
B) the capacity of the banking system to create deposit money is dampened during holiday periods.
C) the money supply will automatically increase.
D) commercial banks decrease their target reserve ratios.
E) changes in reserves will result in no change in deposits during holiday periods.
91) Refer to Figure 28–2. If the interest rate is $i_1$, the subsequent adjustment in the money market is as follows:
   A) the interest rate will remain at $i_1$ because the money market is in equilibrium at this interest rate.
   B) excess supply of money leads to the purchase of bonds, which in turn causes the interest rate to fall.
   C) excess demand for money leads to a purchase of bonds, which in turn causes the interest rate to rise.
   D) the $M_S$ curve will shift to the left so as to maintain the interest rate at $i_2$.
   E) excess demand for money leads to a sale of bonds, which in turn causes the interest rate to rise.

92) Suppose Canadian real GDP is equal to potential GDP. An appreciation of the Canadian dollar then implies that the Bank of Canada should engage in
   A) an increase in inflation because of the higher cost of imports.
   B) no change in monetary policy because the exchange rate is always allowed to float freely.
   C) either a contractionary or an expansionary policy, depending on the cause of the appreciation.
   D) a tightening of monetary policy because of the excess demand for Canadian products that is creating the appreciation.
   E) a loosening of monetary policy because of the excess demand for Canadian products that is creating the appreciation.
100 Random practice, Macroeconomics

93) Consider an economy that is in the process of a disinflation. If the sacrifice ratio is 3, then
   A) the cumulative loss of output in the economy will reach a total of 3 percent.
   B) unemployment increases by 3 percent during the period of disinflation
   C) unemployment increases by 3 percent for every one percent reduction in inflation.
   D) it costs 3 percent of GDP to reduce inflation by one percentage point.
   E) the costs of disinflation are 3 times the benefits of disinflation.

94) Do we get a useful and meaningful statistic by dividing the national debt by the GDP?
   A) No -- we are essentially "dividing apples by oranges", which is unhelpful.
   B) No -- dividing a stock by a flow can never be sensible.
   C) Yes -- we can see the burden of the debt more clearly than using the national debt figure alone.
   D) Yes -- we can then see how much of the national debt is owed by each individual citizen.
   E) No -- the GDP is not a meaningful measure of the well-being of the economy.

95) When a grocery importer in Sweden buys Quebec maple syrup, this
   A) appears as a credit item on the Swedish current account.
   B) appears as a debit item on the Canadian current account.
   C) appears as a credit item on the Canadian current account.
   D) appears as a debit item on the Swedish current account.
   E) both C and D

96) When macroeconomists use the term "recession" they usually define it as a fall in real GDP that lasts for at least
   A) one year.
   B) three quarters.
   C) one quarter.
   D) two quarters.
   E) two years.

97) An example of an item that would be excluded from a measure of GDP from the expenditure side is
   A) the purchase of a tattoo for Mary Smith’s ankle.
   B) the purchase of windows by an automobile assembly plant.
   C) a new truck purchased by a furniture-delivery company.
   D) government pension payments to a retired person.
   E) fertilizer purchased by Farmer Jones to increase crop yields.

Consider the following information describing a closed economy with no government and where aggregate output is demand determined:

1. the equilibrium condition is \( Y = C + I \)
2. the marginal propensity to save is 0.25
3. the autonomous part of \( C \) is $30
4. investment is autonomous and is $40

TABLE 21–1

98) Refer to Table 21–1. The equilibrium level of national income will be
   A) $ 70.                B) $ 93.                C) $120.                D) $160.                E) $280.
100 Random practice, Macroeconomics

99) Suppose that real national income (Y) is equal to 800 and that government purchases are equal to 200. If the government’s net tax revenues are equal to tY, where t is the net tax rate, then what is the value of t necessary for the government to have a balanced budget?
   A) 20 percent
   B) 25 percent
   C) 30 percent
   D) 35 percent
   E) 40 percent

100) The aggregate supply curve will shift as a result of a change in any of the following EXCEPT
   A) the price level.
   B) technology.
   C) labour productivity.
   D) the wage rate.
   E) the cost of capital.
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