

## Macroeconomics – Final Examination

**Note:** The following exam was created for use with Hird, *Working with Economics: A Canadian Framework*, Sixth Edition.

**Part A: Multiple Choice**  
**Each Question is worth 1 mark**

1. A country's production-possibilities curve:
  - a. shows all the possible production combinations for two products
  - b. shows the maximum amount of two products that can be produced
  - c. cannot be drawn if some resources are underutilized
  - d. shifts if more people become unemployed
2. A shift in the production-possibilities curve will occur if:
  - a. some land is not being used for production
  - b. the productive population increases
  - c. more workers become employed
  - d. factories are not used to capacity
3. An unemployment rate of 6% in Canada means that:
  - a. six percent of Canadians cannot find a job
  - b. there are 6 people unemployed for every 100 people employed
  - c. Canada is at a point inside its production-possibilities curve
  - d. population increases are necessary in order to reach the maximum potential output
4. The science of economics has developed because:
  - a. governments need more information in order to make decisions
  - b. companies need to find more productive ways to make products
  - c. individuals need advice on investing their money
  - d. resources used to produce goods are scarce
5. If chicken and turkey are substitutes for each other, an increase in the price of chicken will:
  - a. decrease the demand for chicken
  - b. decrease the quantity of chicken demanded
  - c. decrease the quantity of turkey demanded
  - d. decrease the demand for turkey
6. A shift to the right in the demand curve for product XYZ could be caused by:
  - a. a decrease in consumer incomes
  - b. an increase in the price of a substitute for XYZ
  - c. an increase in the price of product XYZ
  - d. a decrease in the price of product XYZ

7. All of the following factors influence the supply of a product except:
- prices of complementary goods
  - technology
  - raw material costs
  - weather
8. If the demand for a product is elastic, the coefficient of elasticity is
- less than one
  - equal to one
  - greater than one
  - zero
9. Which of the following factors makes the demand for a product more inelastic?
- few substitutes
  - luxury item
  - expenditures on the product account for a large portion of one's budget
  - difficulty in supplying more of the product
10. Which of the following statements is correct?
- The main source of revenue for the federal government is the GST
  - The main source of revenue for the provinces is property tax
  - The marginal tax rate is the highest tax bracket under a progressive income tax system
  - The property tax is a direct tax
11. If selected to be part of the Labour Force Survey, a household remains part of the survey for:
- one month
  - one year
  - three months
  - six months
12. If you pay \$1000 in taxes on an income of \$10,000 and \$1,600 in taxes on an income of \$15,000, the income tax system is:
- progressive
  - regressive
  - proportional
  - indirect
13. The unemployment rate refers to:
- the population minus the number of people employed
  - the labour-force participation rate plus the employment rate
  - the proportion of the labour force that is without work and is looking for work
  - the proportion of the population that is not working

14. The following item is not included in the calculation of GDP (income approach):
- indirect taxes
  - rent
  - investment
  - interest
15. Which of the following statements about inflation is incorrect?
- Inflation hurts those persons on fixed incomes.
  - Inflation hurts borrowers and assists lenders.
  - Inflation hurts imports and promotes exports.
  - Inflation increases the purchasing power of the dollar.
16. Assume that chartered banks keep 2% of their deposits as reserves. If a \$10,000 deposit is made at a chartered bank, by how much can the banking system expand the money supply?
- \$200
  - \$9800
  - \$49,00
  - \$490,000
17. Assume that chartered banks keep 2% of their deposits as reserves. If a chartered bank has \$50 billion in deposits and reserves of \$2.5 billion, by how much could the banking system expand the money supply?
- \$1 billion
  - \$2.5 billion
  - \$75 billion
  - \$2500 billion
18. The largest component of the Canadian money supply is:
- bank deposits
  - notes in circulation
  - coins
  - Bank of Canada reserves
19. Which of the following is **not** a possible shortcoming of monetary policy?
- timing
  - interest rate inelasticity
  - velocity of money
  - crowding out
20. Which of the following is not cited as a reason for trade barriers?
- unequal benefits from trade
  - crowding out
  - dumping
  - diffusion of technology

**Part B. Short Answers**

**Answer questions in the space provided on the examination.**

**Marks**

- (10) 1. Using demand and supply curves in your answer, show and describe the impact of the following:
- a. an increase in the price of wheat on the market for bread. (5 marks)
  - b. an increase in consumer incomes on the market for new cars. (5 marks)
- (10) 2. Fill in the blanks
- a. The imposition of a price ceiling always results in a \_\_\_\_\_.
  - b. Jane has just graduated from college and is looking for her first job. At the present time, Jane is \_\_\_\_\_ unemployed.
  - c. The concept of opportunity cost can be shown using a \_\_\_\_\_ curve.
  - d. The price of money is the \_\_\_\_\_.
  - e. The main method of regulating the money supply by the Bank of Canada is called \_\_\_\_\_.
  - f. After the imposition of an excise tax the price will increase the most under conditions of a(n) \_\_\_\_\_ demand.
  - g. Two factors held constant in drawing the demand curve are \_\_\_\_\_ and \_\_\_\_\_.
  - h. Individuals require money for emergency situations. This demand for money is referred to as a \_\_\_\_\_ demand.
  - i. Because of a downturn in the economy, Fred is temporarily laid off from General Motors. This is an example of \_\_\_\_\_.

unemployment.

- (5) 3a. What decrease in taxes is necessary to increase the level of GDP by \$2 billion? Assume the  $MPC = 0.80$ .
- (5) 3b. List 5 essential characteristics of any commodity that serves as money.
- (5) 4a. What increase in GDP results from an increase in consumer spending of \$800 million? Assume the  $MPC = 0.80$ .
- (5) 4b. List two types of inflation.
1. \_\_\_\_\_
2. \_\_\_\_\_

In Canada, inflation is measured by annual changes in the \_\_\_\_\_.

This survey is conducted every \_\_\_\_\_.

Extremely large increases in prices is referred to as \_\_\_\_\_.

- (5) 5a. Using a diagram in your answer, show the impact of government imposing a price floor on beef.
- (5) 5b. What variables are included in the expenditure approach to calculating GDP?

**(5) 6a.** List five reasons for the increase in the participation rate for women.

**(5) 6b.** When the Bank of Canada sells bonds to the public,  
(circle the appropriate answer)

- |                           |                       |
|---------------------------|-----------------------|
| (i) the money supply      | decreases / increases |
| (ii) interest rates       | decrease / increase   |
| (iii) consumer spending   | decreases / increases |
| (iv) GDP                  | decreases / increases |
| (v) the unemployment rate | decreases / increases |

**(20) 7.** Define each of the following terms:  
Each definition is worth 4 marks

- a. flexible exchange rate
- b. marginal tax rate
- c. bank rate
- d. dumping
- e. Phillips Curve