

This exam was created by Professor Scott Cawfield for students using Parkin/Bade, *Macroeconomics: Canada in the Global Environment*, Fourth Edition.

Indicate whether the following is True (T), or False (F) (15)

- _____ 1. M1 includes currency, demand deposits, and savings deposits.
- _____ 2. M2+ includes currency, demand deposits, personal savings deposits at the chartered banks, nonpersonal deposits at chartered banks, all deposits at other financial institutions.
- _____ 3. Assets = Liabilities – Net Worth
- _____ 4. Actual Reserves + Desired Reserves = Excess Reserves
- _____ 5. The banks loan out their excess reserves.
- _____ 6. By making loans, the banks create new money.
- _____ 7. The interest rate is the amount received by a lender, or paid by a borrower, expressed as a percent of the loan, or investment.
- _____ 8. The exchange rate is the price of borrowing money.
- _____ 9. When the interest rate rises, the demand for money will also rise.
- _____ 10. In the 1990s, the real GDP of Canada increased by # \$130 Billion Canadian. During this time, the demand for M1 and the demand for M2+ rose.
- _____ 11. There are two balance of payments accounts: the Current account, and the Capital account.
- _____ 12. A country that has a current account deficit and borrows more from the rest of the world than it lends to it is called a *net borrower*.
- _____ 13. The labour cost of a unit of output equals a unit of output divided by labour productivity.
- _____ 14. The temptation to impose tariffs on the part of governments is a strong one.
- _____ 15. A trade war occurred during the Great Depression in the 1930s when many Western countries turned to **protectionism**.

Multiple Choice Questions (15)

- _____ 1. The functions of money include the following: A. a medium of exchange B. able to be deposited C. all of the above.
- _____ 2. A central bank is one which is A. operated by the U.N. B. charged with regulating a country's monetary and financial institutions and markets. C. none of the above.
- _____ 3. The central bank in Canada was created A. during the Depression years. B. by John A. MacDonald. C. by Trudeau in 1968.
- _____ 4. The central bank in Canada is considered, among world central banks, to be A. independent of the government. B. Subordinate to the government. C. neither.
- _____ 5. The Governor of the Bank of Canada is considered to have A. no autonomy. B. substantial autonomy and discretion. C. be a member of the government.
- _____ 6. Money includes A. Chequing accounts. B. Bonds and stocks. C. Neither of the above.

- _____ 7. Liquidity is the characteristic of A. being a bit watery. B. being easily converted to cash. C. bearing interest payments.
- _____ 8. The following would be considered liquid: A. House. B. Equities. C. Short-term Treasury bills.
- _____ 9. If we say the Bank of Canada is accelerating the economy, it means that the Bank of Canada is: A. raising interest rates. B. lowering interest rates. C. deferring a decision on interest rates to the money markets.
- _____ 10. If the Bank of Canada is taking actions to expand Canada's monetary base, this is called: A. Expansionary monetary policy. B. Contractionary monetary policy. C. Neutral monetary policy.
- _____ 11. The North American Free Trade Agreement (NAFTA) is a 1994 agreement between: A. Canada, Mexico, Chile. B. Chile, Mexico, the United States. C. Canada, United States, Mexico.
- _____ 12. APEC is proceeding on a free trade agreement among: A. the Atlantic Political nations. B. China, Canada, the United States, East Asia and South Pacific nations. C. China, the Philippines, Japan.
- _____ 13. Infant industry is an argument to help young businesses A. by giving them subsidies. B. by giving them tariff protection. C. by giving them no taxes for the first three years.
- _____ 14. A **VER** is A. a video machine refund from the government. B. an agreement between two countries where the government of the exporting country agrees to restrain the volume of its imports. C. a new tax being considered by government.
- _____ 15. The **foreign exchange rate** is the A. price of money in any economy. B. the price at which one currency exchanges for another. C. the price of foreign goods exchanged.

Short Answer (45)

1. What are the 3 functions of money? (3 marks)
2. What is the money in today's economy? (2 marks)
3. Name the 2 components of M1, and 3 components of M2+. (5 marks)
4. Susy takes \$1,000.00 for her chequing account at Royal Bank, and deposits it into her savings account at TD Canada Trust. What happened to M1 and to M2+? (2 marks)
5. Which of the following is money, and which is not: A. A Canadian \$50 note B. A loonie C. A Government of Canada Bond D. A Microsoft share. (3 marks)
6. Give two functions of financial institutions which have to do with debt. (2 marks)

7. Because of new deposits, the banks find they have \$1,000,000.00 in reserves. They desire to hold in reserve only \$200,000.00. How much money will they loan? (1 mark)
8. If the desired reserve ratio is 0.2, what is the deposit multiplier? (1 mark)
9. State the two ways the **deposit multiplier** formula can be expressed. (2 marks)
10. Why would \$100,000 in new deposits in Canadian banks not always result in new deposits of \$400,000 and loans of \$300,000? (1 mark)
11. As the price level rises, what happens to the demand for money? (1 mark)
12. As GDP declines, what happens to the demand for money? (1 mark)
13. As the interest rate rises, what happens to the demand for money? (1 mark)
14. \$1,200.00 is deposited in a TD bank. The desired reserve ratio is 0.1. What will be the total increase in bank deposits and money? (Show all work for 2 marks)
15. As the interest rate rises, what happens to the price of bonds? Explain in terms of the selling or buying of bonds. (2 marks)
16. If a bank has reserves of \$100,000,000.00 and deposits of \$25,000,000.00, what is its net worth? (1 mark)
17. If a bank has deposits of \$200 million, and net worth of \$1,000 million, what are its assets? (1 mark)
18. What is George Bush's #1 priority for the U.S. economy? (1 mark)
19. What is the Central Bank of Canada trying to do to the Canadian economy? (2 marks)
20. The U.S. economy lost 80,000 jobs in March this year, while the Canadian economy created 30,000 new jobs. How can you explain these figures? (2 marks)
21. Give three aspects of **monetary policy**. (3 marks)
22. Define **Overnight Loans Rate**. (1 mark)
23. Explain what the **Bank Rate** is. (1 mark)
24. Is the Canadian central bank independent, or subordinate? Is the U.S. central bank subordinate, or independent? Which appears to function more effectively, in your view? (2 marks)

25. Using the car analogy, what is the central bank doing when it A. **puts on the brakes** B. **accelerates**. (Be complete in your answer for 2 marks)

Essays (25) (Note carefully: These have to be written in logically expressed sentences and well organized paragraphs for marks. Writing in an incorrect way will get you no marks.)

1. The Bank of Canada has four principal tools it can use to apply monetary policy, and either contract or expand the Canadian economy. Show four ways in which the Bank can contract or cool out the economy, and four ways in which it can expand the economy. What, in your view, is it doing for the economy this year? In your opinion, is this enough?
2. What kind of nations engage in international trade (mention two principles)? Identify and explain eight arguments for protectionism. Do you favour protectionism, or international trade? Why? Which nations are involved in NAFTA, and what are some of its objectives? Which nations should Canada be closest to in trade agreements?