

Time Allowed: 120 Minutes

ANSWER ALL QUESTIONS ON ANSWER SHEET PROVIDED.

ALSO: Write or circle your answer on the exam itself. You can keep the exam for study on the final.

You only HAND IN the Answer Sheet

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

- 1) Transfer payments affect aggregate expenditure 1) _____
A) directly.
B) through the consumption function.
C) through the investment function.
D) through the budget deficit.
E) through net exports.
- 2) Public Saving is equal to 2) _____
A) national income minus consumption.
B) net tax revenues minus transfer payments.
C) national income minus transfer payments.
D) net tax revenues minus government purchases.
E) disposable income minus consumption.
- 3) When compared to a simple macro economic model (with only consumption and investment), 3) _____
adding government and trade causes the *AE* curve to
A) have a smaller autonomous component.
B) become perfectly horizontal.
C) remain stationary.
D) become downward sloping to the right
E) have a larger autonomous component.
- 4) Suppose $G = 300$ and the income-tax rate is 14 percent. When $Y = 2000$, public saving is _____, 4) _____
denoting a budget _____.
A) -20; deficit
B) -20; surplus
C) 20; surplus
D) 0; balance
E) 20; deficit
- 5) Suppose $G = 300$ and the income-tax rate is 12 percent. The government budget is balanced when 5) _____
 Y equals approximately _____.
A) 350 B) 1 000 C) 2 000 D) 2 500 E) 3 600

- 6) With a rise in foreign income, the net export function 6) _____
- A) shifts parallel upward.
 - B) pivots downward.
 - C) pivots upward.
 - D) shifts parallel downward.
 - E) remains stationary.
- 7) The AE function for an open economy with government can be written as $AE =$ 7) _____
- A) $C + I + G + (X - IM)$.
 - B) $C + I - G - (X + IM)$.
 - C) $C + I + G - (X - IM)$.
 - D) $C + I - G + (X - IM)$.
 - E) $C + I + S + (X + IM)$.

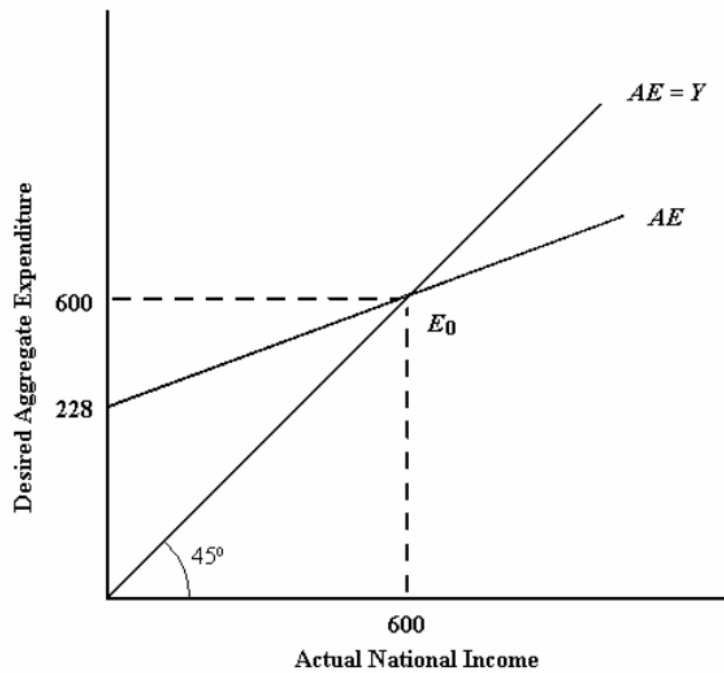


FIGURE 22-1

- 8) In Figure 22-1, equilibrium occurs where actual national income is 8) _____
- A) greater than 600.
 - B) between 228 and 600.
 - C) equal to 228.
 - D) equal to 600.
 - E) less than 228.

- 9) In Figure 22-1, when national income is less than 600, inventory _____ will occur which induces firms to _____ production. 9) _____
 A) accumulation; increase
 B) depletion; decrease
 C) balance is zero; decrease
 D) accumulation; decrease
 E) depletion; increase
- 10) In Figure 22-1, when national income is greater than 600, an undesired inventory _____ will occur which induces firms to _____ production. 10) _____
 A) accumulation; decrease
 B) depletion; increase
 C) accumulation; increase
 D) depletion: maintain the same level of
 E) depletion; decrease
- 11) In Figure 22-1, the slope of the AE curve (z) is approximately 11) _____
 A) 0.50. B) 0.62. C) 1.00. D) 1.50. E) 2.63.
- 12) In Figure 22-1, the value of the multiplier is approximately 12) _____
 A) 0.61. B) 1.00. C) 1.61. D) 2.00. E) 2.63.
- 13) We have the following macro model: $C = 60 + 0.43Y$, $I = 150$, $G = 260$, $T = 0$, $X = 90$, $IM = 0.06Y$. The vertical intercept of the AE curve is _____. 13) _____
 A) 60.0 B) 210.0 C) 300.0 D) 414.4 E) 560.0
- 14) Consider the following macro model: $C = 60 + 0.43Y$, $I = 150$, $G = 260$, $T = 0$, $X = 90$, $IM = 0.06Y$. A national income of 1200 induces desired aggregate expenditure of _____. 14) _____
 A) 560 B) 926 C) 1 004 D) 1 016 E) 1 088
- 15) We have the following macro model: $C = 60 + 0.43Y$, $I = 150$, $G = 260$, $T = 0$, $X = 90$, $IM = 0.06Y$. Equilibrium national income is _____. 15) _____
 A) 560.00 B) 888.89 C) 1 142.85 D) 1 302.33 E) 1 513.50
- 16) Consider the following macro model: $C = 60 + 0.43Y$, $I = 150$, $G = 260$, $T = 0$, $X = 90$, $IM = 0.06Y$. The marginal propensity to spend on national income, z , is _____. 16) _____
 A) 0.06 B) 0.37 C) 0.43 D) 0.49 E) 0.63
- 17) We have the following macro model: $C = 60 + 0.43Y$, $I = 150$, $G = 260$, $T = 0$, $X = 90$, $IM = 0.06Y$. The value of the multiplier is _____. 17) _____
 A) 0.37 B) 1.59 C) 2.04 D) 2.32 E) 2.70

- 18) Consider the following macro model: $C = 60 + 0.43Y$, $I = 150$, $G = 260$, $T = 0$, $X = 90$, $IM = 0.06Y$. The trade balance at equilibrium national income is _____. 18) _____
- A) a deficit of 36.67
 B) a deficit of 21.43
 C) zero
 D) a surplus of 21.43
 E) a surplus of 36.67
- 19) An expression for national saving is _____ 19) _____
- A) $S + T + G$. B) $S - (T - G)$. C) $S - T - G$. D) $S - T + G$. E) $S + (T - G)$.
- 20) A decrease in the value of the multiplier can be caused by _____ 20) _____
- A) an increase in the marginal propensity to save.
 B) an increase in the marginal propensity to spend.
 C) a decrease in the marginal propensity to import.
 D) an increase in the marginal propensity to consume.
 E) a decrease in income tax rates.
- 21) We have the following macro model: $C = 150 + 0.8Y_d$, $Y_d = Y - T$, $I = 400$, $G = 700$, $T = 0.2Y$, $X = 130$, $IM = 0.14Y$. Equilibrium national income is _____. 21) _____
- A) 1 120 B) 1 350 C) 2 240 D) 2 700 E) 5 400
- 22) We have the following macro model: $C = 150 + 0.8Y_d$, $Y_d = Y - T$, $I = 400$, $G = 700$, $T = .2Y$, $X = 130$, $IM = 0.14Y$. Autonomous expenditure is _____. 22) _____
- A) 1 120 B) 1 350 C) 2 240 D) 2 700 E) 5 400
- 23) We have the following macro model: $C = 150 + 0.8Y_d$, $Y_d = Y - T$, $I = 400$, $G = 700$, $T = .2Y$, $X = 130$, $IM = 0.14Y$. The marginal propensity to spend on national income, z , is _____. 23) _____
- A) 0.500 B) 0.540 C) 0.640 D) 0.840 E) 0.860
- 24) When the domestic price level rises, other prices being constant, _____ 24) _____
- A) the aggregate expenditure curve shifts upward.
 B) imports of foreign goods fall.
 C) Canadian goods become more expensive relative to foreign goods.
 D) the net export function shifts upward.
 E) the investment function shifts upward.
- 25) The aggregate demand curve, 'AD' relates the _____ 25) _____
- A) aggregate expenditure to aggregate supply.
 B) price level to desired consumption.
 C) price level to equilibrium real national income.
 D) aggregate supply to real national income.
 E) aggregate expenditure to real national income.

- 26) A change in the price level causes a _____ 26) _____
- A) movement along *AE* but does not affect the *AD* curve.
 - B) shift in the *AE* curve and a movement along the *AD* curve.
 - C) shift in both the *AE* and *AD* curves.
 - D) movement along both the *AE* and *AD* curves.
 - E) movement along the *AE* curve and a shift in the *AD* curve.
- 27) The short-run aggregate supply (*AS*) curve shows the relationship between the _____ 27) _____
- A) equilibrium national income and desired consumption.
 - B) price level and the total output that firms wish to produce and sell, as input prices vary.
 - C) equilibrium national income and marginal cost.
 - D) price level and the total output that firms wish to produce and sell, with input prices given.
 - E) price level and the marginal propensity to consume (*MPC*).
- 28) The short-run aggregate supply (*AS*) curve shows the relationship between the price level and the total _____ 28) _____
- A) output that firms wish to produce and sell, with input prices given.
 - B) investment that firms wish to make, with input prices given.
 - C) wealth accumulated by households, with national income given.
 - D) output that firms wish to produce and sell, as input prices vary.
 - E) investment that firms wish to make, as input prices vary.
- 29) Suppose that a government report indicates that recent high-school graduates have better computing skills than did graduates in the past, resulting in an increase in labour productivity. This will _____ 29) _____
- A) shift the short run *AS* curve to the left.
 - B) shift the *AD* curve to the left.
 - C) shift the *AD* curve to the right.
 - D) shift the short run *AS* curve to the right.
 - E) cause a movement along the *AS* curve to the right.
- 30) If major labour unions succeed in increasing wages, in an *AS-AD* model this will cause the short run *AS* curve to shift _____ 30) _____
- A) downward (to the right) and then return immediately to its original position.
 - B) upward (to the left) and then return immediately to its original position.
 - C) upward (to the left), and the *AD* curve to shift downward to the right.
 - D) upward (to the left), increasing the price level.
 - E) downward (to the right), reducing the price level.

- 31) Over the vertical range of the short run *AS*, a leftward shift of the *AD* curve will result in 31) _____
- A) an increase in prices and no change in real GDP.
 - B) a decrease in both real GDP and prices.
 - C) an increase in real GDP and no change in prices.
 - D) an increase in both real GDP and prices.
 - E) a decrease in prices but no change in real GDP.

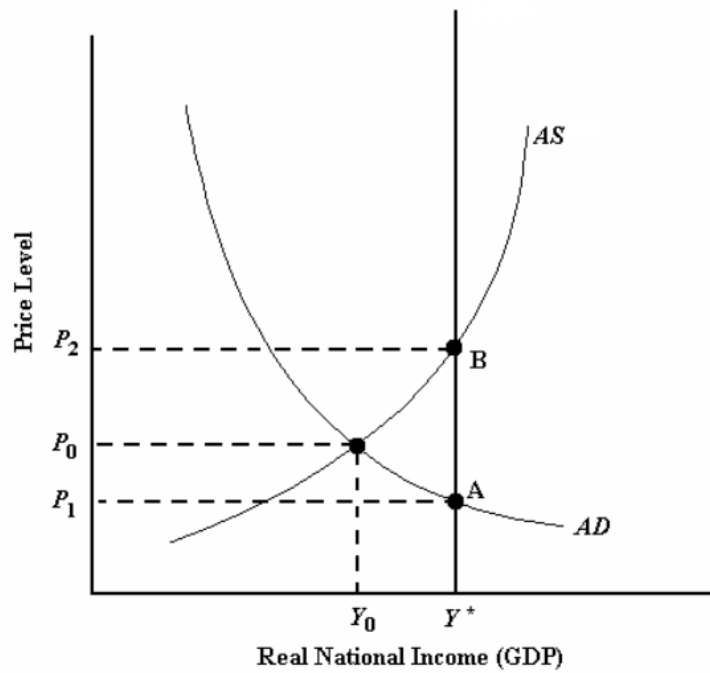


FIGURE 24-1

- 32) If the economy in Figure 24-1 is currently in equilibrium at Y_0 , then the economy is experiencing 32) _____
- A) an inflationary output gap.
 - B) a recessionary output gap.
 - C) potential output.
 - D) a labour shortage.
 - E) a long-run equilibrium.
- 33) Referring to Figure 24-1, where the economy is currently in equilibrium at Y_0 , the appropriate 33) _____ fiscal policy response, to attain full employment output (Y^*), is
- A) an increase in corporate income taxes.
 - B) an increase in government spending or reduction in personal income taxes or a combination of both.
 - C) an increase in interest rates to encourage increased savings.
 - D) a reduction in government spending on goods and services.
 - E) an increase in personal income taxes.

- 34) Assume that in Figure 24–1 the economy is currently producing Y_0 level of output and the government initiates an expansionary fiscal policy. The result will likely be 34) _____
- A) the short run *AS* curve and the *AD* curve will shift right simultaneously until the new equilibrium occurs at potential national income.
 - B) the short run *AS* curve will shift to the right, intersecting the *long-run AS* and *AD* curves at point A.
 - C) the *AD* curve will shift to the right, intersecting the short run *AS* and long run Y^* curves at point B.
 - D) no change in either price level or output, since expansionary fiscal policy is ineffective.
 - E) the long run Y^* curve will shift to the left, intersecting the short run *AS* and *AD* curves at Y_0 level of output.
- 35) If the economy in Figure 24–1 is currently producing Y_0 level of output and wages are sticky downward, then the 35) _____
- A) economy will quickly move to point A.
 - B) *AD* curve will eventually shift to the right and return the economy to full employment level of output.
 - C) economy will eventually move to point B.
 - D) economy will only move gradually toward point A as wages slowly adjust.
 - E) level of output will decrease below Y_0 .
- 36) The long run aggregate supply, Y^* can shift rightward 36) _____
- A) until it reaches the vertical segment of the *short run AS* curve, which is where the economy produces at maximum capacity.
 - B) only when the population increases.
 - C) only as net investment adds to the existing capital stock the economy can employ.
 - D) only in sudden spurts, with the unpredictable timing and extent of technological improvements.
 - E) continuously, with increases in available inputs and/or improvements in technology.

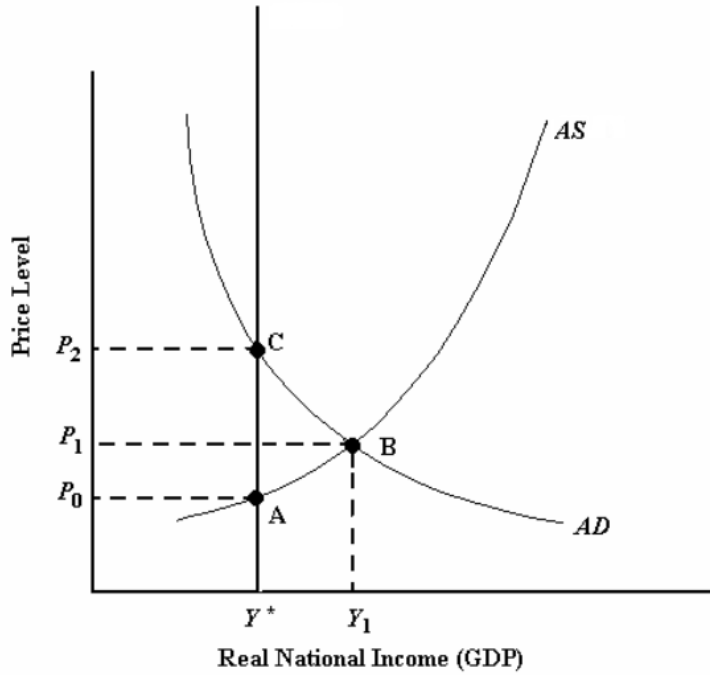


FIGURE 24-2

- 37) Referring to Figure 24-2, where the economy is in equilibrium at Y_1 , if wages are sticky the government could use fiscal policy to close the gap by 37) _____
- A) an increase in current interest rates.
 - B) a decrease in government spending and an increase in taxes.
 - C) a decrease in government spending.
 - D) an increase in government spending.
 - E) an increase in personal and corporate income taxes.
- 38) Referring to Figure 24-2, where the economy is in equilibrium at Y_1 , an appropriate fiscal policy approach to attain potential output (Y^*) is an 38) _____
- A) increase in government spending and decrease in taxes.
 - B) increase in current consumption.
 - C) increase in personal and corporate taxes.
 - D) increase in government spending.
 - E) decrease in current imports.
- 39) Referring to Figure 24-2, where the economy is in equilibrium at Y_1 , a contractionary fiscal policy restores potential output (Y^*) by shifting the 39) _____
- A) AD curve to the right.
 - B) short run AS curve to the right.
 - C) AD to the left.
 - D) short run AS curve to the left to intersect AD at B.
 - E) potential GDP and the short run AS curve to the left.

- 40) Referring to Figure 24–2, if the economy is in equilibrium at Y_1 , the automatic adjustment process will restore potential output, Y^* through _____ 40)
- A) an increase in potential *GDP* to intersect both the *AD* and short run *AS* curves at A.
 - B) a leftward shift of the *AD* to intersect both the short run *AS* and potential *GDP* at C.
 - C) wage increases and a shift right in the short run *AS* curve.
 - D) wage decreases and a rightward shift of the *AD* curve.
 - E) wage increases and a leftward shift of the short run *AS* curve.
- 41) Money is commonly defined as _____ 41)
- A) a generally accepted medium of exchange.
 - B) gold.
 - C) paper currency.
 - D) the Canadian dollar.
 - E) foreign–exchange reserves.
- 42) Doug is saving money in a piggy bank to purchase a new snowboard next winter. This represents using money as _____ 42)
- A) a store of value.
 - B) a unit of account.
 - C) a medium of deferred payment.
 - D) a medium of exchange.
 - E) all of the above
- 43) A rise in the price level will _____ 43)
- A) stabilize the value of money.
 - B) increase the value of money.
 - C) decrease the purchasing power of money.
 - D) increase the purchasing power of money.
 - E) has no effect on the value of money
- 44) The most important initial step in the evolution of paper currency was the _____ 44)
- A) use of the Gold Standard.
 - B) acceptance of bank notes.
 - C) acceptance of metallic coins.
 - D) acceptance of goldsmiths' receipts.
 - E) issuance of currency by governments.
- 45) The major problem of a fractionally backed, convertible currency is that of _____ 45)
- A) paper money being less durable than gold.
 - B) counterfeiting.
 - C) the inability to redeem the currency into metal if too much is issued.
 - D) clipping if too little of the currency is issued by the central monetary authority.
 - E) perennial shortages of paper currency.

- 46) The term 'fiat money' refers to money 46) _____
- A) because the government declares that it is money and that it is legal tender.
 - B) that is fully convertible into gold at a predetermined fixed ratio.
 - C) in which the metal content is worth more than the face value of the coin.
 - D) issued by the Italian Car Dealerships Association (ACDA) and accepted only by them for purchase of Italian cars imported to Canada.
 - E) in which the metal content is worth less than the face value of the coin.
- 47) The basic functions of the Bank of Canada include 47) _____
- A) regulating the money supply.
 - B) supporting the financial markets.
 - C) acting as banker for the chartered banks.
 - D) acting as lender of last resort.
 - E) all of the above
- 48) The largest component of the assets of the Bank of Canada is 48) _____
- A) advances to chartered banks.
 - B) loans to private individuals.
 - C) Government of Canada Deposits.
 - D) Government of Canada securities.
 - E) notes and coins in circulation.
- 49) The largest component of the liabilities of the Bank of Canada is 49) _____
- A) Government of Canada securities.
 - B) deposits of chartered banks and other financial institutions with the Bank of Canada.
 - C) Government of Canada Deposits.
 - D) notes and coins in circulation.
 - E) loans to private individuals.
- 50) In the event of a sudden loss in confidence in the ability of the chartered banks to redeem deposits, the Bank of Canada would typically 50) _____
- A) take over the operation of any banks in severe difficulties.
 - B) offer to sell government bonds to the chartered banks.
 - C) lend reserves to the chartered banks.
 - D) suspend operation of the banking system until the panic subsided.
 - E) impose severe financial penalties on the chartered banks by charging them interest at higher than the bank rate.

- 51) A chartered bank's reserve ratio is the 51) _____
A) fraction of its deposit liabilities that it actually holds as gold, other precious metal or cash in its own vaults.
B) fraction of its deposit liabilities that it actually holds as reserves, either as cash or as deposits with the Bank of Canada.
C) ratio of chequable deposits to term deposits that the chartered banks hold on their books.
D) ratio of Canadian dollars to foreign currencies that the chartered banks hold on their books.
E) fraction of its deposit liabilities that are backed by gold.
- 52) A central bank can create money by 52) _____
A) issuing its own Central Bank bonds.
B) selling government treasury bills to the chartered banks.
C) purchasing government securities on the open market.
D) selling some of its foreign-currency reserves for domestic currency.
E) increasing the rate of inflation.
- 53) In terms of volume most of the money in our economy is created by the 53) _____
A) Bank of Canada and the chartered banks.
B) chartered banks.
C) Government of Canada.
D) revenues earned on exports.
E) Royal Canadian mint.
- 54) Suppose you found a \$100 bill that was stored under your grandmother's mattress and you 54) _____
decided to deposit this money in a Regina Bank. If the desired reserve ratio were 20 percent and all excess reserves were lent out, the new deposit of \$100 would lead to an expansion of the money supply of
A) \$120. B) \$200. C) \$500. D) \$1200. E) \$2000.
- 55) Following a new deposit of \$10 000, a chartered bank will find itself having 55) _____
A) no excess reserves if there is no reserve requirement.
B) \$1 000 of excess cash reserves if the desired reserve ratio is 10 percent.
C) \$2 000 of excess cash reserves if the desired reserve ratio is 10 percent.
D) \$8 000 of excess cash reserves if the desired reserve ratio is 20 percent.
E) \$10 000 of excess cash reserves if the desired reserve ratio is 100 percent.
- 56) If all the banks in the banking system collectively have \$20 million in cash reserves and have a 56) _____
desired reserve ratio of 20 percent, the maximum amount of demand deposits the banking system can support is
A) \$4 million.
B) \$40 million.
C) \$80 million.
D) \$100 million.
E) \$400 million.

- 57) The Bank of Canada purchases \$5 million worth of government securities from an investment dealer with a cheque drawn on the Bank of Canada. The dealer deposits this cheque at a Canadian Chartered Bank. The desired reserve ratio of all banks is 25 percent. Assume all chartered banks are operating with no excess reserves and there is no cash drain. The maximum creation of new deposits by the banking system, including the dealer's original deposit in the Chartered Bank, is 57) _____
- A) \$5 million.
 - B) \$25 million.
 - C) \$22.5 million.
 - D) \$20 million.
 - E) \$15 million.
- 58) Perpetuities are bonds that 58) _____
- A) pay interest forever but repay the principal at the end of a 25-year period.
 - B) pay interest forever but the issuer never repays the principal.
 - C) give a partial claim on profit to the lender.
 - D) pay no interest but the principal is repaid within 100 days.
 - E) give some equity in the borrowing institution to the lender.
- 59) If the interest rate increases, the 59) _____
- A) purchase of bonds is likely to decrease, *ceteris paribus*.
 - B) market price of bonds will remain constant.
 - C) transactions demand for money will increase.
 - D) market price of an asset producing a fixed income will fall.
 - E) value of an asset producing a given income stream rises.
- 60) If the interest rate is 10 percent, an individual would be indifferent between receiving \$5.00 today or 60) _____
- A) \$4.00 one year from now.
 - B) \$4.50 one year from now.
 - C) \$5.00 one year from now.
 - D) \$5.50 one year from now.
 - E) \$6.00 one year from now.

Answer Key

Testname: ECON105-06-MT-V2

- 1) B
- 2) D
- 3) E
- 4) A
- 5) D
- 6) A
- 7) A
- 8) D
- 9) E
- 10) A
- 11) B
- 12) E
- 13) E
- 14) C
- 15) B
- 16) B
- 17) B
- 18) E
- 19) E
- 20) A
- 21) C
- 22) A
- 23) A
- 24) C
- 25) C
- 26) B
- 27) D
- 28) A
- 29) D
- 30) D
- 31) E
- 32) B
- 33) B
- 34) C
- 35) D
- 36) E
- 37) C
- 38) C
- 39) C
- 40) E
- 41) A
- 42) A
- 43) C
- 44) D
- 45) C
- 46) A
- 47) E
- 48) D
- 49) D
- 50) C

Answer Key

Testname: ECON105-06-MT-V2

- 51) B
- 52) C
- 53) A
- 54) C
- 55) D
- 56) D
- 57) D
- 58) B
- 59) D
- 60) D