

Exam

Name _____

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

- 1) A theoretical analysis of the effect of an oil shock on inflation is an example of
- A) the Keynesian model.
 - B) the Classical model.
 - C) a comparative static experiment.
 - D) why economists disagree.

Answer: C

- 2) The exchange rate is
- A) the price of Canadian dollar in terms of foreign currencies.
 - B) the price index for goods and services.
 - C) the rate of return in the stock market.
 - D) the rate of return on investment in foreign countries.

Answer: A

- 3) Equilibrium in the economy means
- A) prices aren't changing over time.
 - B) unemployment is zero.
 - C) tax revenues equal government spending, so the government has no budget deficit.
 - D) quantities demanded and supplied are equal in all markets.

Answer: D

- 4) How did Keynes propose to solve the problem of high unemployment?
- A) have the government increase its demand for goods and services
 - B) put on wage and price controls so that wages won't rise and firms won't have to lay people off to cut costs
 - C) allow wages to decline so that firms will want to hire more workers
 - D) increase the growth rate of the money supply

Answer: A

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 5) Explain what Keynes meant by the phrase "in the long-run we are all dead."

Answer: Keynes argued that wages and prices will eventually adjust to equate demand and supply, but this adjustment might be slow to occur. Therefore, the phrase makes the point that it might not be good government policy to wait for that eventual adjustment in wages and prices. He therefore proposed that governments take actions to alleviate the unemployment resulting from the slow adjustment of wages and prices.

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

- 6) A country has a trade deficit when
- A) exports are zero.
 - B) imports exceed exports.
 - C) exports exceed imports.
 - D) imports equal exports.

Answer: B

- 7) During recessions, the unemployment rate _____ and output _____.
- A) falls; rises
 - B) rises; falls
 - C) rises; rises
 - D) falls; falls

Answer: B

8) Which of the following is NOT true?

- A) Canadian workers are, on average, much more productive than 60 years ago.
- B) Today, a typical Canadian is working longer and getting paid less in real terms.
- C) The average labour productivity in Canada has risen by a factor of six since 1921.
- D) Canadian workers are working fewer hours but their real wages are higher, on average, than in the past.

Answer: B

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

9) Determine whether each of the following is a positive or normative statement.

- a. The Bank of Canada should lower interest rates to increase economic growth, because we're in a recession.
- b. Higher government budget deficits cause higher interest rates.
- c. The trade deficit should decline because of the fall in the value of the dollar.
- d. Because of our high inflation rate, we must reduce the rate of money growth.
- e. A generous unemployment insurance system is a primary cause of high unemployment in Europe.
- f. Increased average labour productivity in a country should lead to faster growth.
- g. Government budget deficits are too high in Canada and should be reduced.

Answer: a. normative

b. positive

c. positive

d. normative

e. positive

f. positive

g. normative

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

10) The short-run, but sometimes sharp, contractions and expansions in economic activity are called

- A) recession.
- B) inflation.
- C) business cycles.
- D) stagnation.

Answer: C

11) The main reason Canada has such a high standard of living is

- A) low government budget deficits.
- B) low inflation.
- C) high average labour productivity.
- D) low unemployment.

Answer: C

12) The difference between microeconomics and macroeconomics is that

- A) microeconomics looks at prices, while macroeconomics looks at inflation.
- B) microeconomics looks at individual consumers and firms, while macroeconomics looks at national totals.
- C) microeconomics looks at supply and demand for goods, while macroeconomics looks at supply and demand for services.
- D) microeconomics looks at national issues, while macroeconomics looks at global issues.

Answer: B

13) Canadian exports are goods and services

- A) produced in Canada and sold to Canadians.
- B) produced in Canada and sold to foreigners.
- C) produced abroad and sold to foreigners.
- D) produced abroad and sold to Canadians.

Answer: B

- 14) Macroeconomists disagree on normative analysis of economic issues because
- A) they have different values.
 - B) they use different tools to study economics.
 - C) they have different objectives.
 - D) they have different political agenda.

Answer: A

- 15) When an economist wants to develop a theory to explain the effect of the price of oil on economic growth
- A) the first step is to state the research question.
 - B) he/she should start with microeconomic analysis.
 - C) the first step is to work out the implications of the theory.
 - D) the first step is to examine the data.

Answer: A

- 16) A country that has many well-trained macroeconomic analysts will not necessarily have more beneficial macroeconomic policies because
- A) economists agree on so few government policies.
 - B) there are few ways in which economists' complex models can be applied to the real world.
 - C) economic policy is usually made by politicians, not economists.
 - D) economists' understanding of the economy remains poor.

Answer: C

- 17) A country has a trade surplus when
- A) imports are zero.
 - B) imports equal exports.
 - C) imports exceed exports.
 - D) exports exceed imports.

Answer: D

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 18) Macroeconomic information for the economy of Anchovy is given below:

	2000	2001
Output (pizzas)	8000	9000
Employment (workers)	700	800
Unemployed (workers)	70	100
Labour force (workers)	770	900
Price per pizza	\$8.00	\$9.00

- a. What was the growth rate of average labour productivity in Anchovy between 2000 and 2001?
- b. What was the inflation rate in Anchovy between 2000 and 2001?
- c. What was the unemployment rate in 2000? In 2001?

Answer: a. Average labour productivity: 2000: $8000/700 = 80/7$; 2001: $9000/800 = 90/8$;
 growth rate = $[(90/8)/(80/7)] - 1 = -.016 = -1.6\%$
 b. Inflation rate: $(9/8) - 1 = .125 = 12.5\%$
 c. Unemployment rates: 2000: $70/770 = .091 = 9.1\%$; 2001: $100/900 = .111 = 11.1\%$

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

- 19) The highest and prolonged period of unemployment in Canada occurred during
- A) the 1990-1991 recession.
 - B) the 1981-1982 recession.
 - C) the Great Depression of the 1930s.
 - D) the 2001 recession in the U.S.

Answer: C

- 20) The process of adding together individual economic variables to obtain economywide totals is called
A) macroeconomics. B) aggregation. C) data development. D) agglomeration.

Answer: B

- 21) When national output declines, the economy is said to be in
A) a recovery. B) a deflation. C) an expansion. D) a recession.

Answer: D

- 22) Which of the following event is NOT considered as a shock?
A) A fall in stock prices.
B) A fall in the price of oil.
C) Hurricane Harvey in Texas and the Caribbean Islands.
D) An anticipated change in the interest rate.

Answer: D

- 23) In 2001 Anchovy had imports of \$50 billion, exports of \$60 billion, and Anchovy's GDP was equal to \$300 billion. The trade surplus was what percent of GDP in 2001?
A) 16.7% B) 20.0% C) 10.0% D) 3.3%

Answer: D

- 24) In Canada, monetary policy is determined by
A) the Bank of Canada. B) the Department of Finance.
C) private citizens. D) the prime minister.

Answer: A

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 25) Discuss the major difference between classical and Keynesian economists. Be sure to explain how they differ with regard to how quickly equilibrium is restored in the economy as well as what role they see for government action in restoring equilibrium.

Answer: Classical and Keynesian economists differ most with regard to how quickly they see wages and prices adjusting to restore equilibrium in the economy. Classical economists think that when the economy is out of equilibrium, wages and prices adjust quickly to restore equilibrium. As a result, there shouldn't be long periods of abnormally high unemployment. The quick return to equilibrium means there is no reason for government action. Keynesians, on the other hand, think wages and prices are slow to adjust. As a result, the economy may be out of equilibrium for some time, perhaps with high unemployment. To restore equilibrium quickly may necessitate some government action, such as increasing the government's demand for goods and services.

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

- 26) A closed economy is a national economy that
A) has a stock market that is not open to traders from outside the country.
B) doesn't interact economically with the rest of the world.
C) has extensive trading and financial relationships with other national economies.
D) has not established diplomatic relations with other national economies.

Answer: B

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

27) Explain the main assumptions in a balanced and unified approach to macroeconomics.

Answer: The balanced and unified approach to macroeconomics has the following characteristics:

1. Individuals, firms, and the government interact in goods markets, asset markets, and labour markets.
2. The model's macroeconomic analysis is based on the analysis of individual behaviour.
3. In the long term, prices and wages fully adjust to achieve equilibrium in the markets for goods, assets, and labour.
4. The basic model may be used with either the classical assumption that wages and prices are flexible or the Keynesian assumption that wages and prices are slow to adjust.

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

28) Canadian imports are goods and services

- A) produced abroad and sold to foreigners. B) produced in Canada and sold to foreigners.
C) produced in Canada and sold to Canadians. D) produced abroad and sold to Canadians.

Answer: D

29) Comparative static experiments

- A) assume the model is in equilibrium.
B) are conducted in social sciences labs.
C) use economic surveys to analyze economic behaviour.
D) use data to compare empirical results.

Answer: A

30) Average labour productivity is

- A) the amount of output per worker. B) the amount of machines per worker.
C) the amount of workers per machine. D) the ratio of employed to unemployed workers.

Answer: A

31) The main goal of macroeconomic research is to

- A) develop new data that can be used to better understand the operation of the economy.
B) analyze current macroeconomic data.
C) make general statements about how the economy works.
D) predict how the macroeconomy will perform in the future.

Answer: C

32) Positive analysis of economic policy

- A) examines the economic consequences of policies but does not address the question of whether those consequences are desirable.
B) is rare in questions of economic policy.
C) generates less agreement among economists than normative analysis.
D) examines the economic consequences of policies and addresses the question of whether those consequences are desirable.

Answer: A

- 33) Economists evaluate an economic model based on
- A) the results of the model.
 - B) the testability of the implications of the model by empirical analysis.
 - C) the consistency of the assumptions with the Classical model.
 - D) data availability.

Answer: B

- 34) Which of the following is a topic of macroeconomics?
- A) why nations have different rates of growth
 - B) why unemployment periodically reaches very high levels
 - C) what causes inflation and what can be done about it
 - D) all of the above

Answer: D

- 35) The Keynesian approach to macroeconomics assumes that
- A) wages, but not prices, adjust quickly to balance quantities supplied and demanded in markets.
 - B) wages and prices adjust quickly to balance quantities supplied and demanded in markets.
 - C) neither wages nor prices adjust quickly to balance quantities supplied and demanded in markets.
 - D) prices, but not wages, adjust quickly to balance quantities supplied and demanded in markets.

Answer: C

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 36) What are the four major areas in which macroeconomists work? Give an example of a job in each.

Answer: Forecasting, analysis, research, and data development.

Forecasting: forecasting the stock market on Bay Street

Analysis: analyzing the economy for the Bank of Canada

Research: investigating the link between the trade deficit and the government budget deficit as a university professor

Data development: working at Statistics Canada to develop better ways to measure unemployment.

- 37) Describe what the two key assumptions are in the "invisible hand" idea.

Answer: The first assumption in the invisible hand idea is that people pursue their own economic self-interests. The second key assumption is that the various markets in the economy must function smoothly and without impediment. In particular, it is assumed that wages and prices are fully flexible and must adjust rapidly enough to maintain equilibrium in all markets. If there is a disequilibrium, the prices and wages would adjust quickly to restore the equilibrium.

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

- 38) Classical economists who assume the "invisible hand" works reasonably well do NOT argue that
- A) the government should actively intervene in the economy to eliminate business cycles.
 - B) the government should have a limited role in the economy.
 - C) government policies will be ineffective and counterproductive.
 - D) wages and prices adjust quickly to bring the economy back to equilibrium.

Answer: A

- 39) Which of the following is NOT an issue addressed by macroeconomists?

A) What determines the price of gasoline

B) What causes the unemployment rate to rise

C) What causes prices to rise

D) Why a nation's economic activity fluctuates

Answer: A

- 40) Which of the statements below is primarily normative in nature?
- A) The inequality of income that exists in Canada is partly caused by an unequal distribution of wealth.
 - B) There is an unequal distribution of income in Canada.
 - C) The distribution of income in Canada should be more equal than it is.
 - D) The distribution of income is more unequal in Canada than it is in Japan.

Answer: C

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 41) You are asked to analyze the effect of the Bank of Canada's new interest rate policy on housing prices. Using a comparative static experiment, describe the steps you need to follow to produce a sound theoretical macroeconomic analysis.

Answer: First, we need to set up a macroeconomic model that includes all relevant variables and is assumed to be in equilibrium. Second, we change the interest rate, keeping all other variables constant, and examine the change in housing prices. Third, we observe how our macroeconomic model responds to the interest rate changes.

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

- 42) Analyzing the effect of a shock on a macroeconomic model is called
- A) shock analysis.
 - B) comparative static experiments.
 - C) forecasting.
 - D) disequilibrium analysis.

Answer: B

- 43) An open economy is a national economy that
- A) has a stock market that is open to traders from anywhere in the world.
 - B) has established diplomatic relations with most other nations.
 - C) has extensive trading and financial relationships with other national economies.
 - D) has good relations with its neighbouring countries.

Answer: C

- 44) Fiscal policy determines _____ while monetary policy determines _____.
- A) the inflation rate; the rate of growth of prices
 - B) government's capital; government's investment
 - C) the rate of growth of the economy; the rate of growth of prices
 - D) government spending and taxation; the growth of the money supply

Answer: D

- 45) In analyzing macroeconomic data during the past year, you have discovered that average labour productivity fell, but total output increased. What was most likely to have caused this?
- A) Unemployment probably increased.
 - B) Government deficit was reduced.
 - C) There was an increase in labour input.
 - D) The capital/output ratio probably rose.

Answer: C

- 46) The business cycle describes the
- A) progression of an industry's structure from monopoly to perfect competition.
 - B) progression of an industry's structure from perfect competition to monopoly.
 - C) expansion and contraction of economic activity in the economy as a whole.
 - D) expansion and contraction of an individual industry within the economy.

Answer: C

- 47) A country is said to be experiencing deflation when
- A) prices of most goods and services are rising over time.
 - B) total output is falling over time.
 - C) prices of most goods and services are falling over time.
 - D) total output is rising over time.

Answer: C

- 48) The two major reasons for the tremendous growth in output in the Canadian economy over the last 125 years are
- A) low budget deficit and low trade deficits.
 - B) population growth and increased productivity.
 - C) low unemployment and budget surplus.
 - D) population growth and budget deficit.

Answer: B

- 49) Which of the following is considered as a fiscal policy?
- A) Removing energy subsidies.
 - B) Increasing mortgage rates.
 - C) Fixing the exchange rate.
 - D) Lowering interest rates.

Answer: A

- 50) A country is said to be experiencing inflation when
- A) total output is falling over time.
 - B) total output is rising over time.
 - C) prices of most goods and services are falling over time.
 - D) prices of most goods and services are rising over time.

Answer: D

- 51) The classical approach to macroeconomics assumes that
- A) neither wages nor prices adjust quickly to balance quantities supplied and demanded in markets.
 - B) wages and prices adjust quickly to balance quantities supplied and demanded in markets.
 - C) prices, but not wages, adjust quickly to balance quantities supplied and demanded in markets.
 - D) wages, but not prices, adjust quickly to balance quantities supplied and demanded in markets.

Answer: B

- 52) Assumptions for economic theories and models should be
- A) rejected if they are not totally realistic.
 - B) maintained until overwhelming evidence to the contrary occurs.
 - C) logical rather than empirically testable.
 - D) simple and reasonable rather than complex.

Answer: D

- 53) The unemployment rate is the
- A) number of unemployed divided by the labour force.
 - B) labour force divided by the number of unemployed.
 - C) number of unemployed divided by the number of employed.
 - D) number of employed divided by the number of unemployed.

Answer: A

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 54) Match each of the following jobs to its major area: forecasting, analysis, research, or data development. Explain your answers.
- a. economist at university, testing theories about the efficient allocation of resources in the foreign exchange market
 - b. economist at Bay Street firm trying to predict the rate of inflation next year using past data
 - c. economist at auto firm looking at demand for new automobiles
 - d. economist at the Department of Finance trying to determine whether foreign firms are dumping goods in Canada
 - e. economist at Statistics Canada developing new methods for calculating price indexes
 - f. economist consulting in Eastern Europe about how to set up free-market financial systems

Answer: a. research
b. forecasting
c. analysis
d. analysis
e. data development
f. analysis

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

- 55) John Maynard Keynes disagreed with the classical economists because he assumed that
- A) international trade played a major role in the macroeconomy.
 - B) wages and prices adjusted slowly.
 - C) unemployment would be eliminated quickly by the invisible hand of the market.
 - D) government intervention in the economy could not reduce business cycles.

Answer: B

- 56) The critical assumptions behind the idea of Adam Smith's invisible hand are
- A) balanced budget and balance trade.
 - B) wage-price flexibility and individuals pursuing their own self-interests.
 - C) high economic growth and low inflation.
 - D) zero unemployment and high economic growth.

Answer: B

- 57) In 2005, DAMA's exports were \$30 billion, imports \$40 billion, and real GDP \$200 billion. DAMA had a trade _____ equal to _____ of GDP in 2005.
- A) deficit; 10 percent
 - B) surplus; 5 percent
 - C) surplus; 10 percent
 - D) deficit; 5 percent

Answer: D

- 58) If the theory behind an economic model fits the data only moderately well, you would probably want to
- A) restate the research question.
 - B) start from scratch with a new model.
 - C) enrich the model with additional assumptions.
 - D) use the theory to predict what would happen if the economic setting or economic policies change.

Answer: C

- 59) Macroeconomists cannot conduct experiments in the manner of physicists or chemists, because
- A) macroeconomists do not have access to the labs used in physics and chemistry.
 - B) macroeconomic subjects such as business cycles are very complex.
 - C) macroeconomists are not allowed to run experiments on human and firm subjects.
 - D) results of macroeconomic experiments are not reliable.

Answer: C

- 60) Adam Smith's idea of the "invisible hand" tries to convey the idea that while there are free markets and people conduct their economic affairs in their own best interests
- A) any country can become an advanced, industrialized nation.
 - B) the overall economy will work well.
 - C) markets will eliminate problems of hunger and dissatisfaction.
 - D) most inequalities between the rich and the poor will be eliminated.

Answer: B

- 61) A useful macroeconomic theory
- A) is easy to use.
 - B) is consistent with the data and observed behaviour of the real-world economy.
 - C) is based on reasonable and realistic assumptions.
 - D) has implications that can be tested in the real world.
 - E) all of the above.

Answer: E

Answer Key

Testname: CH01

- 1) C
- 2) A
- 3) D
- 4) A
- 5) Keynes argued that wages and prices will eventually adjust to equate demand and supply, but this adjustment might be slow to occur. Therefore, the phrase makes the point that it might not be good government policy to wait for that eventual adjustment in wages and prices. He therefore proposed that governments take actions to alleviate the unemployment resulting from the slow adjustment of wages and prices.
- 6) B
- 7) B
- 8) B
- 9) a. normative
b. positive
c. positive
d. normative
e. positive
f. positive
g. normative
- 10) C
- 11) C
- 12) B
- 13) B
- 14) A
- 15) A
- 16) C
- 17) D
- 18) a. Average labour productivity: 2000: $8000/700 = 80/7$; 2001: $9000/800 = 90/8$;
growth rate = $[(90/8)/(80/7)] - 1 = -.016 = -1.6\%$
b. Inflation rate: $(9/8) - 1 = .125 = 12.5\%$
c. Unemployment rates: 2000: $70/770 = .091 = 9.1\%$; 2001: $100/900 = .111 = 11.1\%$
- 19) C
- 20) B
- 21) D
- 22) D
- 23) D
- 24) A
- 25) Classical and Keynesian economists differ most with regard to how quickly they see wages and prices adjusting to restore equilibrium in the economy. Classical economists think that when the economy is out of equilibrium, wages and prices adjust quickly to restore equilibrium. As a result, there shouldn't be long periods of abnormally high unemployment. The quick return to equilibrium means there is no reason for government action. Keynesians, on the other hand, think wages and prices are slow to adjust. As a result, the economy may be out of equilibrium for some time, perhaps with high unemployment. To restore equilibrium quickly may necessitate some government action, such as increasing the government's demand for goods and services.
- 26) B
- 27) The balanced and unified approach to macroeconomics has the following characteristics:
 1. Individuals, firms, and the government interact in goods markets, asset markets, and labour markets.
 2. The model's macroeconomic analysis is based on the analysis of individual behaviour.
 3. In the long term, prices and wages fully adjust to achieve equilibrium in the markets for goods, assets, and labour.
 4. The basic model may be used with either the classical assumption that wages and prices are flexible or the Keynesian assumption that wages and prices are slow to adjust.

Answer Key

Testname: CH01

- 28) D
- 29) A
- 30) A
- 31) C
- 32) A
- 33) B
- 34) D
- 35) C
- 36) Forecasting, analysis, research, and data development.
Forecasting: forecasting the stock market on Bay Street
Analysis: analyzing the economy for the Bank of Canada
Research: investigating the link between the trade deficit and the government budget deficit as a university professor
Data development: working at Statistics Canada to develop better ways to measure unemployment.
- 37) The first assumption in the invisible hand idea is that people pursue their own economic self-interests. The second key assumption is that the various markets in the economy must function smoothly and without impediment. In particular, it is assumed that wages and prices are fully flexible and must adjust rapidly enough to maintain equilibrium in all markets. If there is a disequilibrium, the prices and wages would adjust quickly to restore the equilibrium.
- 38) A
- 39) A
- 40) C
- 41) First, we need to set up a macroeconomic model that includes all relevant variables and is assumed to be in equilibrium. Second, we change the interest rate, keeping all other variables constant, and examine the change in housing prices. Third, we observe how our macroeconomic model responds to the interest rate changes.
- 42) B
- 43) C
- 44) D
- 45) C
- 46) C
- 47) C
- 48) B
- 49) A
- 50) D
- 51) B
- 52) D
- 53) A
- 54) a. research
b. forecasting
c. analysis
d. analysis
e. data development
f. analysis
- 55) B
- 56) B
- 57) D
- 58) C
- 59) C
- 60) B
- 61) E