

Exam

Name _____

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

- 1) Which of the following topics is a primary concern of macro economists? 1) _____
- A) short-run growth models
 - B) standards of living of individuals
 - C) relative wages of skilled and unskilled workers
 - D) choices of individual consumers and firms
 - E) fluctuations in the level of aggregate economic activity
- 2) Primarily, macroeconomists use microeconomic principles to study 2) _____
- A) long-run economic growth and business cycles.
 - B) short run and long run economic growth.
 - C) business cycles and trends in the stock market.
 - D) trends in the stock market and long-term economic growth.
 - E) long-run economic growth and employment policies.
- 3) Gross Domestic Product is 3) _____
- A) the quantity of goods produced by Canadian residents domestically and abroad during some specific period of time.
 - B) the quantity of goods produced within a country's borders during some specific period of time.
 - C) the quantity of goods and services produced by Canadian residents domestically and abroad during some specific period of time.
 - D) the aggregate quantity of income earned by consumers who have jobs during some specified period of time.
 - E) the quantity of goods and services produced within a country's borders during some specified period of time.
- 4) Business cycles in macroeconomics are 4) _____
- A) the increase in a nation's productive capacity over a long period of time.
 - B) short-run ups and downs in aggregate economic activity.
 - C) changes in the average standard of living over time.
 - D) the economic interrelationships among nations.
 - E) profits and losses of firms.
- 5) Gross National Product is 5) _____
- A) the quantity of goods and services produced by Canadian residents domestically and abroad during some specific period of time.
 - B) the quantity of goods and services produced within a country's borders during some specified period of time.
 - C) the quantity of goods produced by Canadian residents domestically and abroad during some specific period of time.
 - D) the aggregate quantity of income earned by consumers who have jobs during some specified period of time.
 - E) the quantity of goods produced within a country's borders during some specific period of time.

- 6) Since 1870, the typical Canadian 6) _____
 A) became ten-times as rich.
 B) remained as rich as the typical American.
 C) became almost fourteen-times as rich.
 D) remained equally as rich.
 E) became twice as rich.
- 7) The two key business cycle events in Canadian economic history were 7) _____
 A) the Great Depression and stagflation.
 B) government budget deficits and World War II.
 C) the productivity slowdown and the Great Depression.
 D) the Great Depression and government budget deficits.
 E) World War II and the Great Depression.
- 8) The relationship between the level of growth of an economic variable, g_t , and its level, y_t , is best approximated as 8) _____
 A) $g_t = \log y_t - \log y_{t-1}$.
 B) $y_t = \log g_t - \log g_{t-1}$.
 C) $g_t = \log y_t + \log y_{t-1}$.
 D) $g_t = \frac{y_t}{y_{t-1}}$.
 E) $\log g_t = y_t - y_{t-1}$.
- 9) The business cycle component of the log of real per capita GDP is equal to 9) _____
 A) log of trend GDP divided by log of actual real GDP.
 B) log of actual real per capita GDP - log of trend per capita GDP.
 C) log of trend GDP - log of actual real GDP.
 D) log of trend per capita GDP - log of actual real per capita GDP.
 E) log of actual real GDP divided by log of trend GDP.
- 10) Sometimes it is useful to separate economic movements into 10) _____
 A) short run growth from income movements.
 B) long run growth from business cycle fluctuations.
 C) long run growth from income movements.
 D) employment growth from business cycle fluctuations.
 E) short run growth from business cycle fluctuations.
- 11) For the study of economic growth, it is most helpful to examine movements in _____; for the study of business cycles, it is most helpful to examine movements in _____. 11) _____
 A) trend income; deviation from trend in income
 B) trend GDP; deviations from trend in GDP
 C) deviations from trend in GDP; trend GDP
 D) deviations from trend in GDP; deviations from trend in GDP

E) trend GDP; trend GDP

- 12) The largest deviation in real per capita GDP from trend GDP occurred 12) _____
A) during the post World War II period.
B) during the Great Depression and World War II.
C) during World War II.
D) in the 1980s.
E) in the 1990s.
- 13) Macroeconomists use models 13) _____
A) to explain long-run economic growth.
B) to explain international trade.
C) to provide accurate descriptions of the world.
D) that explain government deficit and debt.
E) to explain everything that occurs in the world.
- 14) To be useful, macroeconomic models 14) _____
A) never generates testable hypothesis.
B) must be simple.
C) provides a lot of intricate details.
D) must be complete, accurate descriptions of the world.
E) must be extremely realistic.
- 15) The structure of a macroeconomic model involves 15) _____
A) the behaviour of government.
B) the incomes of consumers.
C) the available technology.
D) the goods and services demanded by government.
E) the behaviour of consumers and firms.
- 16) In economic models, the economy must 16) _____
A) be in a situation where all resources are used.
B) be in competitive equilibrium.
C) have low inflation.
D) be where prices that consumers pay are lower than what sellers are offering.
E) have government surpluses.
- 17) The development most responsible for the wide-spread introduction of macroeconomic models 17) _____
built upon solid microeconomic foundations was the
A) work of John Maynard Keynes.
B) rational expectation revolution.
C) the work of Milton Friedman.
D) development of the Keynesian coordination failure model.
E) popularization of the Solow growth model.

- 18) According to the *Lucas critique*, changes in economic policy are likely to have important effects on 18) _____
- A) government.
 - B) the available amounts of natural resources.
 - C) the preferences of consumers.
 - D) microeconomic behaviour.
 - E) international trade.
- 19) The market segmentation theory suggests that changes in money supply 19) _____
- A) should be offset by changes in government spending.
 - B) affect both financial markets and the aggregate economy.
 - C) cause desirable fluctuations in aggregate economic activity.
 - D) lead to shocks in country's technological development.
 - E) only affect financial markets.
- 20) According to real business cycle theory, the primary causes of business cycles are 20) _____
- A) shocks to aggregate demand.
 - B) technology shocks.
 - C) fiscal shocks.
 - D) monetary factors.
 - E) waves of self-fulfilling optimism and pessimism.
- 21) According to Keynesian coordination failure theory, the primary causes of business cycles are 21) _____
- A) monetary factors.
 - B) technology shocks.
 - C) fiscal shocks.
 - D) shocks to aggregate demand.
 - E) waves of self-fulfilling optimism and pessimism.
- 22) The macroeconomic model that is most supportive of the role of government policy aimed at smoothing business cycles is the 22) _____
- A) Keynesian sticky wage model.
 - B) Solow growth model.
 - C) money surprise model.
 - D) Keynesian coordination failure model.
 - E) real business cycle model.
- 23) What is produced and consumed in the economy is determined jointly by 23) _____
- A) standards of living and business cycles.
 - B) the preferences of consumers and the behaviour of business managers.
 - C) government policies and the economy's productive capacity.
 - D) the economy's productive capacity and the preferences of consumers.
 - E) the behaviour of business managers and government policies.
- 24) Improvements in a country's standard of living are brought about in the long run by 24) _____
- A) constructing more machines and buildings.

- B) technological progress.
- C) growth in the population.
- D) immigration policy.
- E) taxes.

- 25) Countries gain from _____
A) taxes.
B) trading goods and assets with each other.
C) productivity slowdown.
D) inflation.
E) long-run tradeoffs between aggregate output and inflation.
- 26) Business cycles are _____
A) similar, and all are created from external forces.
B) similar, but they can have many causes.
C) similar, and they all have a single cause.
D) each unique, but all have a single cause.
E) each unique, and they can have many causes.
- 27) In the long run, inflation is caused by _____
A) aggressive labour unions.
B) global warming.
C) growth in the money supply.
D) greedy monopolists.
E) the tradeoff between aggregate output and inflation.
- 28) Two important theories of unemployment are _____
A) game theory and search theory.
B) Keynesian sticky wage theory and the Phillips curve theory.
C) the quantity theory and game theory.
D) the efficiency wage theory and the quantity theory.
E) search theory and the efficiency wage theory.
- 29) Money is differentiated from other assets due to _____
A) its value as a unit of account.
B) its value as smoothing out business cycles.
C) its value of facilitating government spending.
D) its value as a medium of exchange.
E) its invulnerability to inflation.
- 30) A trade-off between aggregate output and inflation _____
A) may exist in the short run, but not in the long run.
B) is part of the Keynesian sticky wage model.
C) may exist in the long run, but not in the short run.
D) is theoretically possible, but has never been observed in practice.
E) exists in both the short run and the long run.

- 31) A productivity slowdown was observed from the _____
A) early 1950s to the late 1960s.
B) early 1960s to the early 1970s.
C) late 1960s to the early 1980s.
D) mid-1980s to the late 1990s.
E) early 1970s to the early 1980s.
- 32) Two plausible hypothesis to explain the productivity slowdown are _____
A) globalization of capital markets and reductions in tariffs.
B) high interest rates and slower economic growth.
C) adjustments to new technologies and failures in the educational system.
D) measurement problems and adjustments to new technologies.
E) large government budget deficits and large balance of trade deficits.
- 33) Government surplus is the same as _____
A) outlays less income.
B) government deficit less government saving.
C) private saving.
D) government deficit less government saving.
E) government saving.
- 34) The Canadian government budget was _____
A) continuously is surplus from 1961 to the mid 1970s, but was in deficit from 1975 until the late 1990s.
B) continuously in surplus from 1961 to 2002.
C) continuously in deficit from 1961 to the mid 1980s and has been in surplus ever since.
D) continuously in deficit from 1961 to the mid 1970s and in surplus from 1975 to 2002.
E) was in deficit for most of the period from 1959 to 1970, but was in surplus for most of the period from 1970 to the late 1990s.
- 35) One consequence of government deficits is _____
A) lower taxes.
B) lower interest rates.
C) redistribution of the tax burden from one group to another.
D) reduced consumer spending.
E) reduced government borrowing.
- 36) The idea that government budget deficits do not matter under certain circumstances is _____
A) called the Friedman-Lucas theory.
B) called the Ricardian equivalence theorem.
C) preposterous.
D) attributed to Edward Prescott and Finn Kydland.
E) called the Milton Friedman theory.

- 37) In the second half of the 20th century, the Canadian inflation rate was at its highest in the period from _____
37) _____
A) the mid-1980s to the early 1990s.
B) 1960 to the early 1970s.
C) 1990 to 2002.
D) the mid-1970s to the early 1980s.
E) 1656 to the early 1970s.
- 38) What explains the trends in nominal interest rates? _____
38) _____
A) standards of living
B) wages
C) consumer incomes
D) inflation rates
E) aggregate economic activity
- 39) The real interest rate is _____
39) _____
A) the market interest rate.
B) equal to the rate of inflation minus the nominal rate of interest.
C) equal to the nominal rate of interest minus the rate of inflation.
D) less important for decision making than the nominal rate of interest.
E) always equal to the pure rate of time preference.
- 40) When there is high inflation _____
40) _____
A) the real interest rate is always greater than the nominal interest rate.
B) interest rates fall due to government policy.
C) the nominal interest rate is always greater than the real interest rate.
D) the real interest rate is always negative.
E) the nominal interest rate is approximately equal to the real interest rate.
- 41) Real interest rates hit a low of -5% in _____
41) _____
A) 1965. B) 1975. C) 1985. D) 1995. E) 2005.
- 42) A sharp increase in energy prices most plausibly accounts for the _____
42) _____
A) Korean War inflation.
B) Great Depression.
C) recessions of the early 1980s.
D) recession in 1973-1975.
E) recessions in the early 2000s.
- 43) Increases in energy prices do not have as strong a negative impact in _____
43) _____
A) in Japan as in Canada.
B) Canada as in the U.S.
C) in Japan as in the U.S.
D) the U.S. as in Canada.
E) the U.S. as in other countries.

- 44) When a country has a current account balance deficit, the country _____
A) is always lending abroad.
B) is always borrowing from abroad.
C) always has a large government budget deficit.
D) is always borrowing from domestic residents.
E) always has a large government budget surplus.
- 45) When a country has a current account balance surplus, the country _____
A) always has a large government budget surplus.
B) always has a large government budget deficit.
C) is always lending abroad.
D) is always borrowing from abroad.
E) is always borrowing from domestic residents.
- 46) Canada has had a current account surplus since _____
A) the late 1960s.
B) 1961-2005.
C) the late 1980s.
D) the late 1990s.
E) 2002.
- 47) Persistent current account deficits make sense if _____
A) if personal income taxes are reduced.
B) government interest rates go down accordingly.
C) the capital account surplus is reduced.
D) if the associated foreign borrowing is used to finance increased productive capacity.
E) if the government budgetary debt is not growing.
- 48) One important influence on the current account surplus is _____
A) productive capacity.
B) government spending.
C) interest rates.
D) taxes.
E) standards of living.
- 49) Twin deficits refer to _____
A) current and capital account deficits.
B) government deficits and capital account deficits.
C) current account deficits and government deficits.
D) short and long run government deficits.
E) the impact of crowding out on short run and long run government deficits.
- 50) Which of the following observations is true about the unemployment rate in Canada? _____
A) the unemployment rate fluctuates significantly
B) the unemployment rate in 2000 is slower than in the 1950s

- C) since 1980, the unemployment rate rose until the mid-1990s and has declined thereafter
- D) the unemployment rate in the period after 1990 is higher than the unemployment rate in the period before 1990
- E) since 1970, the unemployment rate is higher than in the 2000s

- 51) Year-to-year fluctuations in the unemployment rate are primarily explained by _____ 51) _____
- A) changes in government intervention.
 - B) structural shifts.
 - C) changes in the structure of the population.
 - D) changes in the level of economic activity.
 - E) standards of living.
- 52) The fact that the unemployment rate has tended to decrease since the mid-1980s is primarily explained by _____ 52) _____
- A) changes in government intervention.
 - B) structural shifts.
 - C) changes in the level of economic activity.
 - D) changes in the structure of the population.
 - E) the working age population getting older.
- 53) The worldwide recession of the late 2000s _____ 53) _____
- A) began with the collapse of the Asian currencies.
 - B) was caused by excessively high interest rates.
 - C) happened despite strict government regulation.
 - D) caused the collapse of the U.S. housing market.
 - E) can be characterized as a moral hazard problem.

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

- 54) What is the difference between nominal and real interest rates, and why do economists deem them both to be important economic indicators?

- 1) E
- 2) A
- 3) E
- 4) B
- 5) A
- 6) C
- 7) E
- 8) A
- 9) B
- 10) B
- 11) B
- 12) B
- 13) A
- 14) B
- 15) C
- 16) B
- 17) B
- 18) D
- 19) B
- 20) B
- 21) E
- 22) D
- 23) D
- 24) B
- 25) B
- 26) B

27) C

28) E

29) D

30) A

31) E

32) D

33) E

34) A

35) C

36) B

37) D

38) D

39) C

40) C

41) B

42) D

43) B

44) B

45) C

46) D

47) D

48) B

49) C

50) A

51) D

52) D

53) E

54) Nominal interest rates are the market or posted interest rates. For example, the interest rate on 3-month federal government Treasury bills. Nominal interest rates are influenced by the real interest rate and the expected rate of inflation. Therefore, the real interest rate is the nominal interest rates minus the expected rate of inflation. The real, or inflation-adjusted interest rate is important because it measures the actual cost of borrowing in the absence of inflation. Real interest rates are affected by monetary policy. The high real interest rates in the 1980s are often attributed to tight monetary policy.