

## A. Multiple choice

1. Fiona buys a one-year German government bond (called a bund) for \$400. She receives principal and interest totaling \$436 one year later. During the year the CPI rose from 150 to 162. The nominal interest rate on the bond was \_\_\_\_\_, and the real interest rate was \_\_\_\_\_.
  - a. 9%; 1%
  - b. 9%; -1%
  - c. 36%; 24%
  - d. 36%; 12%
  - e. None of the above
2. For society, when is a good NOT scarce?
  - a. if at least one individual in society can obtain all he or she wants of the good
  - b. if firms are producing at full capacity
  - c. if all members of society can have all they want of the good
  - d. if those who have enough income can buy all they want of the good
3. Which of these consumption activities will most likely impose an external cost?
  - a. An executive plays a vigorous game of golf.
  - b. A student in a dorm plays her CDs at 120 decibels late at night.
  - c. A young mother exercises to an aerobics video.
  - d. A construction worker eats a sandwich during his lunch break.
4. Monica grows coconuts and catches fish. Last year she harvested 1500 coconuts and 600 fish. She values one fish as having a worth of three coconuts. She gave Rachel 300 coconuts and 100 fish for helping her to harvest coconuts and catch fish, all of which were consumed by Rachel. Monica consumed the remaining fish and coconuts. In terms of fish, total consumption by both Monica and Rachel would equal
  - a. 700 fish.
  - b. 900 fish.
  - c. 1100 fish.
  - d. 2100 fish
  - e. 2700 fish.
5. If the government's expenditures exceeded its receipts, what would it most likely do?
  - a. It would lend money to a bank or other financial intermediary.
  - b. It would borrow money from a bank or other financial intermediary.
  - c. It would directly buy bonds from the public.
  - d. It would directly sell bonds to the public.
6. What was inflation in Canada in the 1990s?
  - a. It was almost zero.
  - b. It was about 2 percent per year.
  - c. It was approaching double digits.
  - d. It was about 10 percent per year.
7. Marvin's Metal Company produces screws that it sells to Ford, which uses the screws as a component of its cars. In the national income accounts, the screws are classified as
  - a. inventory.
  - b. final goods.
  - c. capital goods.
  - d. intermediate goods.
  - e. consumption goods
8. What can good assumptions do?
  - a. cause economists to leave out important variables that make their theories worthless
  - b. simplify the complex world and make it easier to understand
  - c. further complicate an already difficult topic
  - d. allow economists to see the "big picture" instead of only small segments

9. Which of the following bonds would you expect to pay the highest interest rate?
  - a. a bond issued by the federal government
  - b. a bond issued by Bombardier
  - c. a bond issued by Manitoba
  - d. a bond issued by a new restaurant chain
10. What happens in the markets for factors of production?
  - a. Households provide firms with labour, land, and capital.
  - b. Households provide firms with savings for investment.
  - c. Firms provide households with goods and services.
  - d. The government provides firms with inputs for the production process.
11. If there is trade, which of the following is most likely?
  - a. A country is worse off because it becomes dependent on other countries.
  - b. A country will produce a greater variety of goods and services to trade.
  - c. A country's consumption possibilities frontier can be outside its production possibilities frontier.
  - d. A country will experience a lower unemployment rate.

**Table 3-3**

	Labour hours needed to make one unit:		Amount produced in 160 hours:	
	Quilts	Dresses	Quilts	Dresses
Helen	40	10	4	16
Carolyn	80	16	2	10

12. Refer to Table 3-3. What is the opportunity cost of one quilt for Helen?
    - a. 2 dresses
    - b. 3 dresses
    - c. 4 dresses
    - d. 5 dresses
  13. Refer to Table 3-3. What does each of the two producers have a comparative or absolute advantage in?
    - a. Helen has a comparative advantage in quilts, and Carolyn has an absolute advantage in neither good.
    - b. Helen has a comparative advantage in dresses, and Carolyn has an absolute advantage in quilts.
    - c. Helen has a comparative advantage in quilts, and Carolyn has an absolute advantage in dresses.
    - d. Helen has a comparative advantage in dresses, and Carolyn has an absolute advantage in both goods.
  14. Over time, people have come to rely more on market-produced goods and less on goods that they produce for themselves. What would this change do by itself?
    - a. It would make GDP fall over time.
    - b. It would not make any change in GDP over time.
    - c. It would make GDP rise over time.
    - d. It would change GDP, but in an uncertain direction.
- Suppose that in 1995 the price index (base year 1992) was 110 and income was \$700 billion. The corresponding numbers for 1996 are 120 and \$800 billion.
15. 1996 income expressed in 1992 dollars is
    - a. Less than \$600b.
    - b. \$600b or more but not more than \$700b.
    - c. More than \$700b but not more than \$800b.
    - d. More than \$800b.
    - e. Impossible to calculate without additional information.
  16. Inflation during 1996 was
    - a. Less than 10%.
    - b. 10%.
    - c. more than 10% but not more than 20%.
    - d. more than 20%.
    - e. Impossible to calculate without additional information.

17. George buys and lives in a newly constructed home he paid \$200 000 for in 2012. He sells the house in 2013 for \$225 000. How is GDP impacted?
- The 2013 sale increases 2013 GDP by \$225 000 and does nothing to 2012 GDP.
  - The 2013 sale increases 2013 GDP by \$25 000 and does nothing to 2012 GDP.
  - The 2013 sale does not increase 2013 GDP and does nothing to 2012 GDP.**
  - The 2013 sale increases 2013 GDP by \$225 000, and 2012 GDP is revised upward by \$25 000.
18. In the CPI, how are goods and services weighted?
- according to how much consumers buy of each item**
  - according to whether the goods and services are necessities or luxuries
  - according to the levels of production of the goods and services in the domestic economy
  - according to the expenditures on them in the GDP national income accounts
19. Which of the following expressions represents national saving in a closed economy?
- $Y - I - G - NX$
  - $Y - C - G$**
  - $Y - I - C$
  - $G + C - Y$
20. Which of the following would most likely happen in the market for loanable funds if the government were to increase the tax on interest income?
- Interest rates would rise and savings would fall.**
  - Both interest rates and savings would rise.
  - Both interest rates and savings would fall.
  - Interest rates would fall and savings would rise.
21. Senator Noitall says that in order to help poor countries develop, Canada should (1) prevent Canadian corporations from investing in poor countries because they take profits that the poor countries should have; (2) not import goods from poor countries that use child labour; (3) work to promote political stability in poor countries; and (4) reduce poor countries' reliance on market forces in their economies. Which of these ideas is likely to help poor countries grow?
- 1
  - 2
  - 3**
  - 4
22. Why would the opening of a new Canadian-owned factory in Egypt tend to increase Egypt's GDP more than it increases Egypt's GNP?
- Some of the income from the factory accrues to people who live in Egypt.
  - GDP is income earned by residents only, whereas GNP is income earned by residents and nonresidents.
  - All of the income from the factory is included in Egypt's GDP, but not all is included in GNP.**
  - Foreign direct investment is part of GDP, but it is not part of GNP.

B. Identify which of the following expenditures are directly included in measuring Canada's GDP. Also label each transaction with C, I, G, X, M or N (for none).

  C   a. A customer gets a haircut at your barbershop.

  C, -M   b. A customer pays you to colour his hair. You uses dye that you bought from Japan.

  I   c. Business is so good you builds an upper floor so you can serve more customers.

C. An economy only consumes two goods: food and recreation. The current shares in total expenditure are 60 percent food and 40 percent recreation. Suppose the price of food increases by 4 percent and the price of recreation increases by 2 percent. What is the change in the CPI?

**ANS:**

**The CPI is a weighted average of the ratios (current price)/(base year price) over all the items in the basket. An increase of 4 percent in a price corresponds to a ratio (current price)/(base year price) of 1.04. Thus, the change in CPI is equal to  $(.6 \times 1.04 + .4 \times 1.02) - (.6 \times 1 + .4 \times 1) = .6 \times .04 + .4 \times .02 = .032$ , or an increase of 3.2 percent.**

D. In a closed economy  $GDP = \$1300$ , private saving =  $\$125$ , government budget deficit =  $\$5$ , and government spending =  $\$15$  (all numbers are in billions). Calculate national saving, taxes, and consumption.

ANS:

National saving = private saving + public saving =  $125 - 5 = \$120$  (Public saving is equal to minus budget deficit.)

Since public saving =  $T - G = -5$ , government spending  $G = 15$ , it follows that  $T = G - 5 = 15 - 5 = \$10$ .

Consumption =  $1300 - 15 - 120 = \$1165$ .

E. What might the African governments do to foster higher economic growth?

ANS:

They could make, perhaps with outside support, better efforts to achieve peace and thus encourage investment and saving. They could focus government spending on essential things like public order, the judicial system, and basic health and education. By focusing on these basic functions, they could decrease tax rates on production and trade.