

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) standards of living of individuals
 - B) relative wages of skilled and unskilled workers
 - C) short-run growth models
 - 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) long-run economic growth and employment policies.
 - E) trends in the stock market and long-term economic growth.
- 3) Gross Domestic Product is 3) _____
- A) the quantity of goods and services produced by Canadian residents domestically and abroad during some specific period of time.
 - B) the aggregate quantity of income earned by consumers who have jobs during some specified period of time.
 - C) the quantity of goods and services produced within a country's borders during some specified period of time.
 - D) the quantity of goods produced by Canadian residents domestically and abroad during some specific period of time.
 - E) the quantity of goods produced within a country's borders during some specific period of time.
- 4) Business cycles in macroeconomics are 4) _____
- A) short-run ups and downs in aggregate economic activity.
 - B) changes in the average standard of living over time.
 - C) the economic interrelationships among nations.
 - D) the increase in a nation's productive capacity over a long period of time.
 - 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 produced within a country's borders during some specific period of time.
 - C) the quantity of goods and services produced within a country's borders during some specified 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 by Canadian residents domestically and abroad during some specific period of time.

- 6) Since 1870, the typical Canadian 6) _____
 A) became ten-times as rich.
 B) became almost fourteen-times as rich.
 C) remained as rich as the typical American.
 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 government budget deficits.
 B) government budget deficits and World War II.
 C) the Great Depression and stagflation.
 D) World War II and the Great Depression.
 E) the productivity slowdown 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) $\log g_t = y_t - y_{t-1}$.
 C) $g_t = \frac{y_t}{y_{t-1}}$.
 D) $g_t = \log y_t - \log y_{t-1}$.
 E) $y_t = \log g_t - \log g_{t-1}$.
- 9) The business cycle component of the log of real per capita GDP is equal to 9) _____
 A) log of trend per capita GDP - log of actual real per capita GDP.
 B) log of actual real per capita GDP - log of trend per capita GDP.
 C) log of actual real GDP divided by log of trend GDP.
 D) log of trend GDP divided by log of actual real GDP.
 E) log of trend GDP - log of actual real 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) employment growth from business cycle fluctuations.
 D) long run growth from income movements.
 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 GDP; deviations from trend in GDP
 B) deviations from trend in GDP; deviations from trend in GDP
 C) trend income; deviation from trend in income
 D) deviations from trend in GDP; trend GDP
 E) trend GDP; trend GDP

- 12) The largest deviation in real per capita GDP from trend GDP occurred 12) _____
A) during World War II.
B) during the Great Depression and World War II.
C) in the 1980s.
D) in the 1990s.
E) during the post World War II period.
- 13) Macroeconomists use models 13) _____
A) to provide accurate descriptions of the world.
B) to explain long-run economic growth.
C) that explain government deficit and debt.
D) to explain international trade.
E) to explain everything that occurs in the world.
- 14) To be useful, macroeconomic models 14) _____
A) must be extremely realistic.
B) never generates testable hypothesis.
C) provides a lot of intricate details.
D) must be simple.
E) must be complete, accurate descriptions of the world.
- 15) The structure of a macroeconomic model involves 15) _____
A) the behaviour of consumers and firms.
B) the available technology.
C) the behaviour of government.
D) the goods and services demanded by government.
E) the incomes of consumers.
- 16) In economic models, the economy must 16) _____
A) be where prices that consumers pay are lower than what sellers are offering.
B) have low inflation.
C) have government surpluses.
D) be in competitive equilibrium.
E) be in a situation where all resources are used.
- 17) The development most responsible for the wide-spread introduction of macroeconomic models 17) _____
built upon solid microeconomic foundations was the
A) development of the Keynesian coordination failure model.
B) the work of Milton Friedman.
C) popularization of the Solow growth model.
D) work of John Maynard Keynes.
E) rational expectation revolution.
- 18) According to the *Lucas critique*, changes in economic policy are likely to have important effects on 18) _____
A) microeconomic behaviour.
B) the preferences of consumers.
C) international trade.
D) government.
E) the available amounts of natural resources.

- 19) The market segmentation theory suggests that changes in money supply 19) _____
A) affect both financial markets and the aggregate economy.
B) cause desirable fluctuations in aggregate economic activity.
C) should be offset by changes in government spending.
D) only affect financial markets.
E) lead to shocks in country's technological development.
- 20) According to real business cycle theory, the primary causes of business cycles are 20) _____
A) technology shocks.
B) shocks to aggregate demand.
C) monetary factors.
D) waves of self-fulfilling optimism and pessimism.
E) fiscal shocks.
- 21) According to Keynesian coordination failure theory, the primary causes of business cycles are 21) _____
A) fiscal shocks.
B) technology shocks.
C) waves of self-fulfilling optimism and pessimism.
D) monetary factors.
E) shocks to aggregate demand.
- 22) The macroeconomic model that is most supportive of the role of government policy aimed at 22) _____
smoothing business cycles is the
A) money surprise model.
B) Keynesian sticky wage model.
C) Keynesian coordination failure model.
D) Solow growth model.
E) real business cycle model.
- 23) What is produced and consumed in the economy is determined jointly by 23) _____
A) the preferences of consumers and the behaviour of business managers.
B) government policies and the economy's productive capacity.
C) the economy's productive capacity and the preferences of consumers.
D) the behaviour of business managers and government policies.
E) standards of living and business cycles.
- 24) Improvements in a country's standard of living are brought about in the long run by 24) _____
A) growth in the population.
B) taxes.
C) immigration policy.
D) technological progress.
E) constructing more machines and buildings.
- 25) Countries gain from 25) _____
A) inflation.
B) productivity slowdown.
C) long-run tradeoffs between aggregate output and inflation.
D) taxes.
E) trading goods and assets with each other.

- 26) Business cycles are 26) _____
A) similar, and they all have a single cause.
B) each unique, but all have a single cause.
C) similar, but they can have many causes.
D) each unique, and they can have many causes.
E) similar, and all are created from external forces.
- 27) In the long run, inflation is caused by 27) _____
A) growth in the money supply.
B) greedy monopolists.
C) aggressive labour unions.
D) the tradeoff between aggregate output and inflation.
E) global warming.
- 28) Two important theories of unemployment are 28) _____
A) the quantity theory and game theory.
B) search theory and the efficiency wage theory.
C) game theory and search theory.
D) the efficiency wage theory and the quantity theory.
E) Keynesian sticky wage theory and the Phillips curve theory.
- 29) Money is differentiated from other assets due to 29) _____
A) its value as a unit of account.
B) its invulnerability to inflation.
C) its value as a medium of exchange.
D) its value of facilitating government spending.
E) its value as smoothing out business cycles.
- 30) A trade-off between aggregate output and inflation 30) _____
A) may exist in the long run, but not in the short run.
B) is part of the Keynesian sticky wage model.
C) is theoretically possible, but has never been observed in practice.
D) may exist in the short run, but not in the long run.
E) exists in both the short run and the long run.
- 31) A productivity slowdown was observed from the 31) _____
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 32) _____
A) globalization of capital markets and reductions in tariffs.
B) large government budget deficits and large balance of trade deficits.
C) high interest rates and slower economic growth.
D) adjustments to new technologies and failures in the educational system.
E) measurement problems and adjustments to new technologies.

- 33) Government surplus is the same as 33) _____
A) government deficit less government saving.
B) government saving.
C) government deficit less government saving.
D) outlays less income.
E) private saving.
- 34) The Canadian government budget was 34) _____
A) continuously in deficit from 1961 to the mid 1980s and has been in surplus ever since.
B) continuously in surplus from 1961 to the mid 1970s, but was in deficit from 1975 until the late 1990s.
C) continuously in deficit from 1961 to the mid 1970s and in surplus from 1975 to 2002.
D) continuously in surplus from 1961 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 35) _____
A) reduced government borrowing.
B) lower taxes.
C) redistribution of the tax burden from one group to another.
D) lower interest rates.
E) reduced consumer spending.
- 36) The idea that government budget deficits do not matter under certain circumstances is 36) _____
A) called the Ricardian equivalence theorem.
B) preposterous.
C) called the Friedman-Lucas theory.
D) called the Milton Friedman theory.
E) attributed to Edward Prescott and Finn Kydland.
- 37) In the second half of the 20th century, the Canadian inflation rate was at its highest in the period 37) _____
from
A) 1990 to 2002.
B) 1656 to the early 1970s.
C) 1960 to the early 1970s.
D) the mid-1980s to the early 1990s.
E) the mid-1970s to the early 1980s.
- 38) What explains the trends in nominal interest rates? 38) _____
A) standards of living
B) consumer incomes
C) aggregate economic activity
D) wages
E) inflation rates
- 39) The real interest rate is 39) _____
A) equal to the nominal rate of interest minus the rate of inflation.
B) less important for decision making than the nominal rate of interest.
C) always equal to the pure rate of time preference.
D) equal to the rate of inflation minus the nominal rate of interest.
E) the market interest rate.

- 40) When there is high inflation 40) _____
A) the nominal interest rate is approximately equal to the real interest rate.
B) the real interest rate is always negative.
C) the real interest rate is always greater than the nominal interest rate.
D) the nominal interest rate is always greater than the real interest rate.
E) interest rates fall due to government policy.
- 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) recessions of the early 1980s.
B) Korean War inflation.
C) recession in 1973-1975.
D) recessions in the early 2000s.
E) Great Depression.
- 43) Increases in energy prices do not have as strong a negative impact in 43) _____
A) Canada as in the U.S.
B) the U.S. as in other countries.
C) in Japan as in the U.S.
D) in Japan as in Canada.
E) the U.S. as in Canada.
- 44) When a country has a current account balance deficit, the country 44) _____
A) is always borrowing from domestic residents.
B) always has a large government budget surplus.
C) always has a large government budget deficit.
D) is always lending abroad.
E) is always borrowing from abroad.
- 45) When a country has a current account balance surplus, the country 45) _____
A) is always lending abroad.
B) is always borrowing from abroad.
C) always has a large government budget surplus.
D) is always borrowing from domestic residents.
E) always has a large government budget deficit.
- 46) Canada has had a current account surplus since 46) _____
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 47) _____
A) government interest rates go down accordingly.
B) if personal income taxes are reduced.
C) if the associated foreign borrowing is used to finance increased productive capacity.
D) the capital account surplus is reduced.
E) if the government budgetary debt is not growing.

- 48) One important influence on the current account surplus is 48) _____
A) productive capacity.
B) government spending.
C) standards of living.
D) interest rates.
E) taxes.
- 49) Twin deficits refer to 49) _____
A) current and capital account deficits.
B) the impact of crowding out on short run and long run government deficits.
C) short and long run government deficits.
D) current account deficits and government deficits.
E) government deficits and capital account deficits.
- 50) Which of the following observations is true about the unemployment rate in Canada? 50) _____
A) the unemployment rate in 2000 is slower than in the 1950s
B) since 1970, the unemployment rate is higher than in the 2000s
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) the unemployment rate fluctuates significantly
- 51) Year-to-year fluctuations in the unemployment rate are primarily explained by 51) _____
A) structural shifts.
B) changes in the structure of the population.
C) changes in the level of economic activity.
D) changes in government intervention.
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 the structure of the population.
B) structural shifts.
C) changes in government intervention.
D) the working age population getting older.
E) changes in the level of economic activity.
- 53) The worldwide recession of the late 2000s 53) _____
A) can be characterized as a moral hazard problem.
B) began with the collapse of the Asian currencies.
C) was caused by excessively high interest rates.
D) happened despite strict government regulation.
E) caused the collapse of the U.S. housing market.

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?

Answer Key

Testname: UNTITLED1

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

Answer Key

Testname: UNTITLED1

51) C

52) A

53) A

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.