Exam

Name_____

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

1) Primarily, macroeconomists use microeconomic principles to study
   A) long-run economic growth and employment policies.
   B) business cycles and trends in the stock market.
   C) trends in the stock market and long-term economic growth.
   D) short-run and long-run economic growth.
   E) long-run economic growth and business cycles.

   Answer: E
   Diff: 2   Type: MC

1) _____

2) Sometimes it is useful to separate economic movements into
   A) long-run growth and income movements.
   B) long-run growth and business cycle fluctuations.
   C) short-run growth and income movements.
   D) short-run growth and business cycle fluctuations.
   E) employment growth and business cycle fluctuations.

   Answer: B
   Diff: 2   Type: MC

2) _____

3) New Keynesian Theory
   A) includes microeconomic foundations and does not rely on sticky wages or prices.
   B) specifies financial markets as the primary cause of business cycles.
   C) specifies shocks to technology cause business cycles.
   D) uses the same microeconomic foundations as other macro models.
   E) relies on sticky wages and prices but does not include microeconomic foundations.

   Answer: D
   Diff: 2   Type: MC

3) _____

4) One consequence of government deficits is
   A) lower interest rates.
   B) redistribution of the tax burden from one group to another.
   C) reduced consumer spending.
   D) reduced government borrowing.
   E) lower taxes.

   Answer: B
   Diff: 2   Type: MC

4) _____

5) According to the *Lucas critique*, the effects of changes in economic policy
   A) cannot always be predicted by looking at historical macroeconomic relationships.
   B) can be determined by looking at macroeconomic data.
   C) do not require macroeconomic theory.
   D) are known to the government.
   E) are easy to predict.

   Answer: A
   Diff: 2   Type: MC

5) _____

6) In the 2008-09 recession, the government deficit

    A) was reduced by the Bank of Canada.
    B) stayed roughly constant.
    C) would have increased if the government had intervened.
    D) increased.
    E) decreased.

Answer: D

6) _____

7) Business cycles

    A) have a single cause, and unpredictable comovements.
    B) have potentially many causes, but regular comovements.
    C) are always caused by the central bank.
    D) cannot be prevented, according to the consensus among macroeconomists.
    E) occur every five years in Canada.

Answer: B

7) _____

8) During the 2008—2009 recession in Canada

    A) inflation increased.
    B) exports increased.
    C) exports decreased.
    D) unemployment decreased.
    E) the real interest rate increased.

Answer: C

8) _____

9) The Canadian recession of 1981-82

    A) was likely caused by the problems in the mortgage industry in the United States.
    B) was the last recession in Canada during the 20th century.
    C) had nothing to do with the Bank of Canada.
    D) was the least-severe of the 1961-2018 period.
    E) was the most-severe of the 1961-2018 period.

Answer: E

9) _____

10) Which of the following is a fundamental question of macroeconomics?

    A) What mechanism could force people to pollute less?
    B) How should governments be elected?
    C) Should governments act to smooth business cycles?
    D) What is the impact of government provided health care?
    E) Where is the stock market heading?

Answer: C

10) _____

11) Tax cuts　11) _____
    A) will surely make the government default on its debts.
    B) cause unemployment.
    C) always stimulate economic activity.
    D) may have no effect, if people take account of future taxes.
    E) cause the government to borrow less.

    Answer: D

12) Countries gain from　12) _____
    A) productivity slowdown.
    B) trading goods and assets with each other.
    C) inflation.
    D) long-run tradeoffs between aggregate output and inflation.
    E) taxes.

    Answer: B

13) Which of the following best describes the unemployment rate in Canada compared to the United　13) _____
States?
    A) They were equal before the 2008-2009 recession, then higher in Canada after.
    B) It has been consistently lower in the United States, before and after the 2008-2009 recession.
    C) It was higher in Canada before the 2008-2009 recession, then lower after.
    D) They are generally equal.
    E) It was lower in Canada before the 2008-2009 recession, then higher after.

    Answer: C

14) Business cycles are　14) _____
    A) each unique, and they can have many causes.
    B) each unique, but all have a single cause.
    C) similar, and all are created from external forces.
    D) similar, but they can have many causes.
    E) similar, and they all have a single cause.

    Answer: D

15) The inflation rate has been low in Canada since 1991 because　15) _____
    A) employment insurance became less generous.
    B) the Bank of Canada has a 2% inflation target.
    C) oil prices have been low.
    D) the government's budget deficit was brought under control.
    E) Canada is trading more with the rest of the world.

    Answer: B

16) Which of the following topics is a primary concern of macro economists?   16) _____
    A) short-run growth models
    B) standards of living of individuals
    C) relative wages of skilled and unskilled workers
    D) fluctuations in the level of aggregate economic activity
    E) choices of individual consumers and firms

Answer: D

17) The two key business cycle events in Canadian economic history were   17) _____
    A) government budget deficits and World War II.
    B) the Great Depression and government budget deficits.
    C) the Great Depression and stagflation.
    D) the productivity slowdown and the Great Depression.
    E) World War II and the Great Depression.

Answer: E

18) Since 1870, the typical Canadian   18) _____
    A) became ten-times as rich.
    B) remained equally as rich.
    C) became twice as rich.
    D) became more than sixteen-times as rich.
    E) remained as rich as the typical American.

Answer: D

19) Business cycles in macroeconomics are   19) _____
    A) changes in the average standard of living over time.
    B) profits and losses of firms.
    C) the economic interrelationships among nations.
    D) short-run ups and downs in aggregate economic activity.
    E) the increase in a nation's productive capacity over a long period of time.

Answer: D

20) The relationship between the level of growth of an economic variable, g_t, and its level, y_t, is best   20) _____
    approximated as
    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) $\log g_t = y_t - y_{t-1}$.
    E) $g_t = \dfrac{y_t}{y_{t-1}}$.

Answer: A

21) The real interest rate is
    A) the market interest rate.
    B) equal to the nominal rate of interest minus the rate of inflation.
    C) equal to the rate of inflation minus the nominal rate of interest.
    D) less important for decision making than the nominal rate of interest.
    E) always equal to the pure rate of time preference.

Answer: B

21) _____

22) Improvements in a country's standard of living are brought about in the long run by
    A) constructing more machines and buildings.
    B) taxes.
    C) growth in the population.
    D) immigration policy.
    E) technological progress.

Answer: E

22) _____

23) Neo-Fisherism says
    A) the central bank should increase inflation by lowering the money supply.
    B) the central bank should increase inflation by lowering nominal interest rates.
    C) that Fisherism is wrong.
    D) the central bank should increase inflation by raising the nominal interest rate.
    E) the central bank should increase inflation by lowering the real interest rate.

Answer: D

23) _____

24) Macroeconomists tend to agree on
    A) approaches to constructing models of economic growth.
    B) the usefulness of Keynesian models.
    C) the implications of real business cycle theory for government policy.
    D) that all business cycles are due to self-fulfilling optimism and pessimism.
    E) nothing.

Answer: A

24) _____

25) Canada has become a more open economy because
    A) it is cheaper to ship goods between countries, and there are fewer trade restrictions.
    B) the Bank of Canada promotes international trade.
    C) the United States has a fragile financial sector.
    D) greater trade restrictions elsewhere in the world make trade with Canada attractive.
    E) of the European Union.

Answer: A

25) _____

26) Persistent current account deficits make sense if 26) _____
    A) personal income taxes are reduced.
    B) government interest rates go down accordingly.
    C) the associated foreign borrowing is used to finance increased productive capacity.
    D) the capital account surplus is reduced.
    E) the government budgetary debt is not growing.

Answer: C
Diff: 3   Type: MC

27) Unemployment, at the aggregate level 27) _____
    A) is zero in a perfect world.
    B) is a sign of market failures.
    C) can be prevented with sound government policy.
    D) is avoidable.
    E) is consistent with a well-functioning economy.

Answer: E
Diff: 1   Type: MC

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

28) Explain why macroeconomists tend to use models to understand how economies work, rather than doing experiments.

Answer: In contrast to what occurs in some of the natural sciences—chemistry or biology, for example—it is difficult or impossible to conduct the experiments we would like to. For example, a macroeconomic experiment that engineers a recession to see what will happen will cause hardship for many people. Therefore, a typical approach in macroeconomics is to build a working model of the economy, fit the model to fit the data, and then run experiments on the model at low cost. Basically, the experiment uses up the researcher's time and some electricity to keep his or her computer running.
Diff: 3   Type: ES

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

29) Adam Smith's *Wealth of Nations* emphasized 29) _____
    A) that Scotland produced several key technological innovations.
    B) mercantilism.
    C) how free markets produce socially efficient outcomes.
    D) that the government should intervene to smooth business cycles.
    E) the existence of externalities.

Answer: C
Diff: 1   Type: MC

30) The idea that government budget deficits do NOT matter under certain circumstances is 30) _____
    A) called the Ricardian equivalence theorem.
    B) attributed to Edward Prescott and Finn Kydland.
    C) called the Friedman-Lucas theory.
    D) preposterous.
    E) called the Milton Friedman theory.

Answer: A
Diff: 2   Type: MC

31) The government surplus is the same as
    A) investment income.
    B) government saving.
    C) government deficit less government saving.
    D) private saving.
    E) outlays less income.

Answer: B

31) _____

32) Since 1870 in Canada, there has been
    A) sustained economic growth.
    B) GDP measured in 2012 dollars is largely unchanged.
    C) only small growth in average incomes.
    D) too many business cycles to sustain economic growth.
    E) sustained economic growth until the Great Depression followed by little growth since.

Answer: A

32) _____

33) According to real business cycle theory, the primary causes of business cycles are
    A) shocks to aggregate demand.
    B) fiscal shocks.
    C) monetary factors.
    D) technology shocks.
    E) waves of self-fulfilling optimism and pessimism.

Answer: D

33) _____

34) Gross Domestic Product is
    A) the quantity of goods produced within a country's borders during some specific period of time.
    B) the quantity of goods produced by Canadian residents domestically and abroad during some specific period of time.
    C) the aggregate quantity of income earned by consumers who have jobs during some specified period of time.
    D) the quantity of goods and services produced within a country's borders during some specified period of time.
    E) the quantity of goods and services produced by Canadian residents domestically and abroad during some specific period of time.

Answer: D

34) _____

35) The 1981-82 recession in Canada
    A) was caused by fiscal policy.
    B) was coincident with the global financial crisis.
    C) was a side effect of tight monetary policy.
    D) was caused by an increase in oil prices.
    E) was the least-severe recession in the 1961—2018 period.

Answer: C

35) _____

36) What is produced and consumed in the economy is determined jointly by

    A) standards of living and business cycles.
    B) government policies and the economy's productive capacity.
    C) the preferences of consumers and the behaviour of business managers.
    D) the economy's productive capacity and the preferences of consumers.
    E) the behaviour of business managers and government policies.

36) _____

Answer: D
Diff: 3   Type: MC

37) What explains the trends in nominal interest rates?

    A) standards of living
    B) consumer incomes
    C) aggregate economic activity
    D) inflation rates
    E) wages

37) _____

Answer: D
Diff: 3   Type: MC

38) The business cycle component of the log of real per capita GDP is equal to

    A) log of trend GDP - log of actual real GDP.
    B) log of trend per capita GDP - log of actual real per capita GDP.
    C) log of actual real per capita GDP - log of trend per capita GDP.
    D) log of actual real GDP divided by log of trend GDP.
    E) log of trend GDP divided by log of actual real GDP.

38) _____

Answer: C
Diff: 3   Type: MC

39) What do we assume about households and firms?

    A) They optimize.
    B) They act irrationally.
    C) Their interests are rarely aligned.
    D) They do what the government tells them to do.
    E) They look after each other.

39) _____

Answer: A
Diff: 3   Type: MC

40) When there is high inflation

    A) the nominal interest rate is always greater than the real interest rate.
    B) the real interest rate is always greater than the nominal interest rate.
    C) the nominal interest rate is approximately equal to the real interest rate.
    D) interest rates fall due to government policy.
    E) the real interest rate is always negative.

40) _____

Answer: A
Diff: 2   Type: MC

41) Since World War II, deviations from trend real GDP per-capita are 41) _____
    A) at most ± 5%.
    B) at least ± 10%.
    C) typically < 0.
    D) typically larger than ± 5%.
    E) at most ± 1%.

    Answer: A
    Diff: 1   Type: MC

42) Money is differentiated from other assets due to 42) _____
    A) its invulnerability to inflation.
    B) its value as a unit of account.
    C) its value of facilitating government spending.
    D) its value as a medium of exchange.
    E) its value as smoothing out business cycles.

    Answer: D
    Diff: 2   Type: MC

43) In a macroeconomic model, equilibrium is when 43) _____
    A) nothing is changing.
    B) the actions of consumers and firms are consistent.
    C) everyone in the economy is happy.
    D) the government has achieved an efficient allocation of resources.

    Answer: B
    Diff: 3   Type: MC

44) The unemployment rate in 2018 44) _____
    A) was at its peak for the period 2008-2018.
    B) was higher than the unemployment rate in the United States.
    C) was higher than in 2009.
    D) was at about the average peak in the previous three recessions.
    E) was lower than the unemployment rate in the United States.

    Answer: B
    Diff: 2   Type: MC

45) In the long run, inflation is caused by 45) _____
    A) aggressive labour unions.
    B) global warming.
    C) growth in the money supply.
    D) greedy monopolists.
    E) the tradeoff between aggregate output and inflation.

    Answer: C
    Diff: 2   Type: MC

46) More government spending 46) _____
    A) is always beneficial.
    B) increases the government surplus.
    C) reduces the current account deficit.
    D) can compete with private spending and cause crowding out.
    E) lowers the government deficit.

Answer: D

47) Monetary policy in Canada is determined by 47) _____
    A) the Finance Minister.
    B) the Royal Canadian Mint.
    C) the Prime Minister of Canada.
    D) the Bank of Canada.
    E) the Bank of Montreal.

Answer: D

48) The basic structure of a macroeconomic model includes the description of this feature 48) _____
    A) isotherms.
    B) consumers' preferences over goods.
    C) average annual rainfall.
    D) a herd of cows.
    E) the density of cities.

Answer: B

49) For the study of economic growth, it is most helpful to examine movements in _____; for the 49) _____
    study of business cycles, it is most helpful to examine movements in _____.
    A) deviations from trend in GDP; deviations from trend in GDP
    B) trend GDP; trend GDP
    C) deviations from trend in GDP; trend GDP
    D) trend GDP; deviations from trend in GDP
    E) trend income; deviation from trend in income

Answer: D

50) A trade-off between aggregate output and inflation 50) _____
    A) sometimes exists, but is unstable.
    B) is theoretically possible, but has never been observed in practice.
    C) sometimes exists, and is stable.
    D) is the basis for fiscal policy.
    E) is not theoretically possible, and is not observed in practice.

Answer: A

51) Reductions in the real interest rate caused by monetary policy
     A) are permanent.
     B) are always harmful.
     C) are temporary.
     D) never happen.
     E) do not occur during recessions.

51) _____

Answer: C
Diff: 2   Type: MC

52) When a country has a current account deficit, the country
     A) is always borrowing from domestic residents.
     B) always has a large government budget surplus.
     C) is always borrowing from abroad.
     D) always has a large government budget deficit.
     E) is always lending abroad.

52) _____

Answer: C
Diff: 2   Type: MC

53) The 2007-08 recession in Canada
     A) was worsened by fiscal policy actions.
     B) originated in the United States.
     C) was the most severe recession in the 1961-2018 period.
     D) was caused by tight monetary policy.
     E) was the result of the failure of the Canadian banking system.

53) _____

Answer: B
Diff: 3   Type: MC

54) The Fisher relation is
     A) a positive relationship between the nominal interest rate and inflation.
     B) the negative relationship between unemployment and vacancies.
     C) of no interest to economists.
     D) trend growth in real GDP.
     E) the Phillips curve.

54) _____

Answer: A
Diff: 2   Type: MC

55) One possible explanation of the higher unemployment rate in Canada relative to the United States
before the 2008—2009 recession is
     A) a larger population in the United States.
     B) U.S. government policy was more effective in managing business cycles.
     C) less generous unemployment benefits in Canada.
     D) more job training programs in Canada.
     E) more generous unemployment benefits in Canada.

55) _____

Answer: E
Diff: 3   Type: MC

56) In a competitive equilibrium, we assume that markets are such that

    A) consumers are price takers while firms set prices.

    B) firms behave strategically in setting their prices.

    C) firms are price takers while consumers set prices.

    D) consumers behave strategically in setting their prices.

    E) both consumers and firms are price takers.

56) _____

Answer: E

Diff: 2   Type: MC

57) Which of the following is a fundamental question of macroeconomics?

    A) What causes sustained economic growth?

    B) What is the effect of penalties on crime?

    C) How should a labour contract be structured?

    D) How should governments be elected?

    E) What causes the health care industry to prosper?

57) _____

Answer: A

Diff: 3   Type: MC

58) Since 1980, the real interest rate

    A) has increased worldwide.

    B) has decreased worldwide.

    C) has declined only in Canada.

    D) has decreased only in Canada.

    E) has been roughly constant.

58) _____

Answer: B

Diff: 3   Type: MC

59) To be useful, macroeconomic models

    A) must be extremely realistic.

    B) must be complete, accurate descriptions of the world.

    C) provides a lot of intricate details.

    D) must be simple.

    E) never generate testable hypothesis.

59) _____

Answer: D

Diff: 2   Type: MC

60) The development most responsible for the wide-spread introduction of macroeconomic models built upon solid microeconomic foundations was the

    A) popularization of the Solow growth model.

    B) development of the Keynesian coordination failure model.

    C) the work of Milton Friedman.

    D) rational expectations revolution.

    E) work of John Maynard Keynes.

60) _____

Answer: D

Diff: 1   Type: MC

61) When a country has a current account surplus, the country   61) _____
    A) always has a large government budget deficit.
    B) is always borrowing from domestic residents.
    C) is always borrowing from abroad.
    D) always has a large government budget surplus.
    E) is always lending abroad.

Answer: E
Diff: 2   Type: MC

1) E
   Diff: 2   Page Ref:
   LO: 1.1 State the two focuses of study in macroeconomics, the key differences between microeconomics and macroeconomics, and the similarities between microeconomics and macroeconomics.

2) B
   Diff: 2   Page Ref:
   LO: 1.2 Explain the key features of trend growth and deviations from trend in per capita gross domestic product in Canada from 1870 to 2017.

3) D
   Diff: 2   Page Ref:
   LO: 1.5 Explain why there is disagreement among macroeconomists, and what they disagree about.

4) B
   Diff: 2   Page Ref:
   LO: 1.6 List the 12 key ideas that will be covered in this text.

5) A
   Diff: 2   Page Ref:
   LO: 1.4 Discuss how microeconomic principles are important in constructing useful macroeconomic models.

6) D
   Diff: 1   Page Ref:
   LO: 1.7 List the key observations that motivate questions we will try to answer in this text.

7) B
   Diff: 1   Page Ref:
   LO: 1.7 List the key observations that motivate questions we will try to answer in this text.

8) C
   Diff: 1   Page Ref:
   LO: 1.7 List the key observations that motivate questions we will try to answer in this text.

9) E
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10) C
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20) A
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23) D
   Diff: 3   Page Ref:
   LO: 1.6 List the 12 key ideas that will be covered in this text.

24) A
   Diff: 3   Page Ref:
   LO: 1.5 Explain why there is disagreement among macroeconomists, and what they disagree about.

25) A
   Diff: 3   Page Ref:
   LO: 1.7 List the key observations that motivate questions we will try to answer in this text.

26) C
   Diff: 3   Page Ref:
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27) E
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   Diff: 3   Page Ref:
   LO: 1.3 Explain why models are useful in macroeconomics.

29) C
   Diff: 1   Page Ref:
   LO: 1.6 List the 12 key ideas that will be covered in this text.

30) A
   Diff: 2   Page Ref:
   LO: 1.6 List the 12 key ideas that will be covered in this text.

31) B
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37) D
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42) D
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   LO: 1.6 List the 12 key ideas that will be covered in this text.

43) B
   Diff: 3   Page Ref:
   LO: 1.3 Explain why models are useful in macroeconomics.

44) B
  Diff: 2   Page Ref:
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45) C
  Diff: 2   Page Ref:
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46) D
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  LO: 1.6 List the 12 key ideas that will be covered in this text.

55) E
  Diff: 3   Page Ref:
  LO: 1.7 List the key observations that motivate questions we will try to answer in this text.

56) E
  Diff: 2   Page Ref:
  LO: 1.3 Explain why models are useful in macroeconomics.

57) A
  Diff: 3   Page Ref:
  LO: 1.1 State the two focuses of study in macroeconomics, the key differences between microeconomics and macroeconomics,
        and the similarities between microeconomics and macroeconomics.

58) B
  Diff: 3   Page Ref:
  LO: 1.7 List the key observations that motivate questions we will try to answer in this text.

59) D
  Diff: 2   Page Ref:
  LO: 1.3 Explain why models are useful in macroeconomics.

60) D
Diff: 1   Page Ref:
LO: 1.4 Discuss how microeconomic principles are important in constructing useful macroeconomic models.

61) E
Diff: 2   Page Ref:
LO: 1.7 List the key observations that motivate questions we will try to answer in this text.