1) The economy’s aggregate supply (AS) curve shows the relationship between the
   A) price level and the marginal propensity to consume (MPC).
   B) equilibrium real GDP and marginal cost.
   C) price level and the total output that firms wish to produce and sell, with technology and input prices held
      constant.
   D) equilibrium real GDP and desired consumption.
   E) price level and the total output that firms wish to produce and sell, as technology and input prices vary.

2) Real GDP is equivalent to
   A) the money value of all goods and services produced in an economy per year plus imports.
   B) the nominal value of GNP multiplied by the GDP deflator.
   C) personal disposable income plus depreciation.
   D) the value of all goods and services produced in an economy per year adjusted for price changes.
   E) the market value of all goods and services produced in an economy per year.

3) Consider the following news headline: "Governments plan massive hospital construction programs across
   the country." Choose the statement below that best describes the likely macroeconomic effects.
   A) the AD curve shifts to the right and the AS curve shifts to the left; the price level rises and the effect on
      real GDP is indeterminate
   B) the AD curve shifts to the left and the AS curve shifts to the right; the price level falls and the effect on
      real GDP is indeterminate
   C) the AD curve shifts to the right; the price level rises and real GDP rises
   D) the AD and AS curves both shift to the right; the effect on the price level is indeterminate and real GDP
      rises
   E) the AD curve shifts to the left; the price level falls and real GDP falls
4) Refer to Figure 21-2. Which of the following is the correct equation for the consumption function depicted in the figure?
   A) C = (0.5)YD
   B) C = 500 + (2/3)YD
   C) C = 500 + (0.5)YD
   D) C = 1000 + (2/3)YD
   E) C = 2000 + (2/3)YD

5) The net export (NX) function crosses the horizontal axis at a level of national income where the
   A) X and IM curves are at their farthest distance apart.
   B) X and IM curves intersect.
   C) X curve reaches the horizontal axis.
   D) X curve reaches its maximum.
   E) IM curve reaches the horizontal axis.

6) If a country’s labour force is 15 million people, and 1.35 million of those are unemployed, the country’s unemployment rate is
   A) 2.5 percent.  B) 3.3 percent.  C) 4.5 percent.  D) 6.7 percent.  E) 9.0 percent.

7) Consider the basic AD/AS model. Suppose that a rising percentage of high-school graduates are illiterate, resulting in a decrease in average labour productivity. This change will
   A) shift the AD curve to the left.
   B) shift the AS curve to the right.
   C) shift the AD curve to the right.
   D) cause a movement to the right along the AS curve.
   E) shift the AS curve to the left.
8) Transfer payments are excluded from the government component in the calculation of GDP because
   A) they do not represent the purchase of a good or a service.
   B) it is difficult to assess the market value of a transfer payment.
   C) they are small enough to ignore when computing the national accounts.
   D) they do not generate additional income in the economy.
   E) they are not counted as income by any economic agent.

9) If the amount of income generated in Canada that is remitted to foreigners is greater than the amount of
   income generated abroad that is remitted to Canadian residents, then
   A) GNP is negative.
   B) GNP is lower than GDP.
   C) GDP is equal to GNP.
   D) GNP is less than disposable personal income.
   E) GDP is lower than GNP.

10) Potential or full-employment output is
    A) the maximum GDP that an economy actually achieves throughout its entire history.
    B) a goal that can never be achieved by the economy.
    C) the GDP that could be produced if the economy’s resources were fully employed at their maximum
        intensity of use.
    D) the GDP that would be produced if the economy’s resources were fully employed at a normal intensity of
        use.
    E) achieved during periods when all of the labour force is employed.

11) When wage rates rise faster than the increase in labour productivity, the
    A) output gap falls.
    B) AS curve shifts downward.
    C) AS curve shifts upward.
    D) output gap increases.
    E) AD curve shifts left.

Consider the following information describing an economy with demand-determined output. There is no government or foreign trade.

1. equilibrium condition is $Y = C + I$
2. marginal propensity to save = 0.20
3. the autonomous part of C is $50
4. investment is autonomous and equals $25

TABLE 21–4

12) Refer to Table 21–4. The equilibrium level of national income is
    A) $75.  B) $155.  C) $93.75.  D) $375.  E) $249.
13) Refer to Figure 23-5. Which of the following statements best describes the supply side of Economy A?
   A) Unit costs are rising rapidly as firms are producing beyond their capacity. Firms will produce more only if prices increase.
   B) Unit costs are rising, but firms can produce more output by employing standby capacity and overtime labour, for example, with no increase in the price level.
   C) Unit costs are rising, but firms are able to produce more output because there is excess capacity in the economy.
   D) Firms are producing well below their capacity and are willing to produce more output with no increase in price.
   E) Firms are producing well below their capacity and are willing to produce more only if prices rise.

14) Refer to Figure 23-5. Which of the following statements best describes the supply side of Economy B?
   A) Firms are producing well below their capacity and are willing to produce more output with no increase in price.
   B) Unit costs are rising rapidly, but firms can produce more output by employing standby capacity and overtime labour, for example, with no increase in the price level.
   C) Firms are not able to produce more output because there is no excess capacity in the economy.
   D) Firms are producing well below their capacity and are willing to produce more only if prices rise.
   E) Unit costs are rising rapidly as firms are producing beyond their capacity. Firms will produce more only if prices increase.

15) In an open economy with government and demand–determined output, an increase in the equilibrium level of national income could be caused by
   A) a decrease in government purchases.
   B) a decrease in the desired level of saving at all levels of income.
   C) an increase in taxes at all levels of income.
   D) a decrease in desired consumption at all levels of income.
   E) an increase in the desired level of imports at all levels of income.
16) Why are illegal activities, unreported activities, and non-market activities excluded from GDP?
   A) They are morally repugnant.
   B) They do not contribute to the true national output of goods and services.
   C) They do not have an opportunity cost.
   D) They do not contribute to human welfare.
   E) They are difficult to measure.

17) Consider a firm producing skateboards in one factory. In determining this firm's value added, we would start with its total revenue and subtract the cost of
   1) salaries to the firm’s cleaning staff;
   2) electricity used in the factory;
   3) the wood used for the base of the skateboards.
   A) 2 and 3  B) 1 only  C) 3 only  D) 1 and 2  E) 1 and 3

18) Suppose the price level is constant, output is demand-determined, and the economy is closed with no government. If the marginal propensity to spend is 0.7, the simple multiplier is
   A) 0.33.  B) 0.70.  C) 1.00.  D) 1.42.  E) 3.33.

<table>
<thead>
<tr>
<th>Disposable Income</th>
<th>Desired Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>30</td>
<td>34</td>
</tr>
<tr>
<td>70</td>
<td>66</td>
</tr>
<tr>
<td>130</td>
<td>114</td>
</tr>
</tbody>
</table>

TABLE 21–2

19) Refer to Table 21–2. The marginal propensity to save is equal to
   A) 0.6.  B) 0.2.  C) 0.4.  D) 0.67.  E) 0.8.

20) When determining the AE function for an open economy with government, it is generally assumed that as real national income
   A) decreases, net exports will decrease.
   B) increases, net exports will decrease.
   C) increases, exports will decrease.
   D) increases, imports will decrease.
   E) decreases, exports will decrease.

21) Suppose that in 2010 Canada's automobile manufacturers produced 2 million cars priced at $20,000 each. And in 2011 they produced 1 million cars priced at $40,000 each. Ceteris paribus, the change in nominal national income is
   A) an increase because of inflation.
   B) a decrease because fewer cars were produced.
   C) no change in nominal national income.
   D) an increase because the price of each car increased.
   E) insufficient information to know.
22) Refer to Figure 23-4. Suppose that an increase in government purchases by 50 causes the AD curve to shift to the right, as shown. The simple multiplier is ______ and the multiplier is ______.

A) 2.8; 1.2  
B) 6; 1.2  
C) 4; 1.2  
D) 4; 2.8  
E) 4; 3.2
23) Refer to Figure 21-3. Assuming $AE_0$ to be the prevailing aggregate expenditure function, at a level of national income equal to $Y_3$ we can state that

A) consumption is less than desired aggregate expenditure.
B) desired saving is less than zero.
C) desired aggregate expenditure is greater than output.
D) desired aggregate expenditure is less than output.
E) consumption is greater than desired aggregate expenditure.

24) Which of the following would likely cause an upward parallel shift in the $AE$ curve and a rightward shift in the $AD$ curve?

A) an increase in the business confidence of firms
B) an increase in the price level
C) a decrease in the price level
D) an increase in the MPC
E) a reduction in government purchases

25) Economic booms can cause problems as well as create benefits because they are often accompanied by

A) excessive labour-force participation.
B) pressure on the government budget deficit to rise.
C) rising real interest rates.
D) deflationary pressures.
E) inflationary pressures.
26) A worker currently earning $3000 per month has negotiated a 4% wage increase in anticipation of a 4% inflation rate in the next year. Under what scenario will the worker have a higher purchasing power?
   A) if next year’s inflation rate is 5%
   B) if next year’s inflation rate is 3%
   C) if next year’s inflation rate is 4%
   D) if next year some prices increase by only 4%
   E) if next year some prices increase by only 5%

27) If the Consumer Price Index changes from 120 in the year 2009 to 126 in the year 2011, the average rate of inflation per year over this two-year period is approximately
   A) 2.5 percent.  B) 5 percent.  C) 1.5 percent.  D) 3 percent.  E) 6 percent.

28) In each of the four expenditure categories, national income accounts measure _______ expenditures, while national income theory deals with _______ expenditures.
   A) actual; autonomous
   B) actual; desired
   C) induced; exogenous
   D) endogenous; exogenous
   E) desired; actual

29) Suppose national accounting was done by adding up the market values of all outputs of all firms. This approach would
   A) underestimate the value of production in the economy.
   B) accurately reflect the value of production in the economy.
   C) obtain gross domestic product.
   D) overestimate the value of production in the economy.
   E) obtain gross national product.

30) All points on an economy’s AD curve
   A) show only changes in relative prices and quantities.
   B) show the direct relationship between the price level and the demand for consumer goods.
   C) show the direct relationship between the price level and net exports.
   D) correspond to a particular point on industry demand curves for a particular product.
   E) relate a particular price level to the total demand for output at that price level.

31) Consider a simple macro model with a constant price level and demand-determined output. The equations of the model are: \( C = 60 + 0.43Y \), \( I = 150 \), \( G = 260 \), \( T = 0 \), \( X = 90 \), \( IM = 0.06Y \). The vertical intercept of the AE function is
   A) 60.0.  B) 210.0.  C) 300.0.  D) 414.4.  E) 560.0.

32) To calculate GDP from the expenditure side, one must add together
   A) consumption, investment, government purchases, and exports.
   B) wages, rent, interest, and profits.
   C) consumption, investment, government purchases, and net exports.
   D) wages, profits, government purchases and net exports.
   E) consumption, government purchases, and interest.
The table below provides macroeconomic data for a hypothetical economy. Dollar amounts are all in constant-dollar terms.

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual Output (billions of $)</th>
<th>Potential Output (billions of $)</th>
<th>Unemployment Rate ($ of labour force)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>402</td>
<td>404</td>
<td>7.1</td>
</tr>
<tr>
<td>2003</td>
<td>408</td>
<td>411</td>
<td>7.2</td>
</tr>
<tr>
<td>2004</td>
<td>415</td>
<td>415</td>
<td>6.3</td>
</tr>
<tr>
<td>2005</td>
<td>420</td>
<td>418</td>
<td>5.9</td>
</tr>
<tr>
<td>2006</td>
<td>422</td>
<td>420</td>
<td>6.0</td>
</tr>
<tr>
<td>2007</td>
<td>420</td>
<td>423</td>
<td>7.0</td>
</tr>
<tr>
<td>2008</td>
<td>425</td>
<td>425</td>
<td>6.3</td>
</tr>
</tbody>
</table>

**TABLE 19–1**

33) Refer to Table 19–1. In which years was this economy experiencing an inflationary gap?
   B) 2006, 2007  
   C) 2005, 2006  
   D) 2004, 2008  
   E) 2002, 2003

34) If the price level is taken as given in a simple macro model with demand–determined output, it is implicitly being assumed that
   A) net exports are negative.  
   B) all resources in the economy are fully employed.  
   C) the marginal propensity to consume out of disposable income is equal to the marginal propensity to spend out of national income.  
   D) producers can provide whatever output is demanded of them without requiring higher prices to offset any higher costs.  
   E) net exports are positive.

35) A rightward shift in the economy’s AS curve implies that
   A) at any given price level, a higher level of output will be supplied.  
   B) the same output will be produced, but only at a higher price level.  
   C) at any given price level, a lower level of output will be supplied.  
   D) there is a decrease in aggregate supply.  
   E) there is a demand shock.

36) If the economy’s AS curve is upward sloping, a negative shock to aggregate demand will result in
   A) a decrease in prices but no change in real GDP.  
   B) an increase in both real GDP and prices.  
   C) a decrease in both real GDP and prices.  
   D) an increase in prices and no change in real GDP.  
   E) an increase in real GDP and no change in prices.
37) Consider the simplest macro model with demand-determined output, where AE = C + I. Suppose that actual national income is $900 billion and desired consumption plus desired investment is $920 billion. We can expect that
   A) firms will decrease autonomous investment by $20 billion until equilibrium national income is reached at $900 billion.
   B) firms will see a decrease in inventories, and they will respond by increasing output, thereby increasing actual national income.
   C) firms will increase autonomous investment by $20 billion until equilibrium national income is reached at $920 billion.
   D) actual national income will decrease until equilibrium national income is reached at $900 billion.
   E) firms will see an increase in inventories, and they will respond by decreasing output, thereby decreasing actual national income.

38) An increase in the value of the simple multiplier can be caused by
   A) an increase in the net tax rate.
   B) a decrease in the net tax rate.
   C) an increase in the marginal propensity to save.
   D) an increase in the marginal propensity to import.
   E) a decrease in the marginal propensity to consume.

39) One major reason that GDP is an inaccurate measure of the "quality of life" is that
   A) people frequently buy things they do not want.
   B) it includes net exports.
   C) it does not include the value of leisure.
   D) it cannot be adjusted for changes in prices.
   E) it is statistically very inaccurate.

40) Suppose there is a drop in the price of an important factor input. What will be the effect on the aggregate supply curve?
   A) The AS curve will shift to the left.
   B) There will be movement to the left, along the AS curve.
   C) There will be movement to the right, along the AS curve.
   D) There will be no change in the AS curve.
   E) The AS curve will shift to the right.
The diagram below shows desired aggregate expenditure for a hypothetical economy. Assume the following features of this economy:

- marginal propensity to consume (mpc) = 0.75
- net tax rate (t) = 0.20
- no foreign trade
- fixed price level
- all expenditure and income figures are in billions of dollars.

**FIGURE 22-2**

41) Refer to Figure 22-2. Which of the following equations describes the aggregate expenditure function for this economy?

A) \( AE = 250 + (0.75)Y + (0.2)YD \)
B) \( AE = 250 + (0.15)Y \)
C) \( AE = 225 + (0.75)Y \)
D) \( AE = 250 + (0.6)Y \)
E) \( AE = 75 + (0.75)Y + (0.2)YD \)

42) Refer to Figure 22-2. What is total autonomous expenditure?

A) $250  B) $0  C) $175  D) $100  E) $75

43) The AE function for an open economy with government can be written as

A) \( AE = C + I - G + (X - IM) \)
B) \( AE = C + I + G - (X - IM) \)
C) \( AE = C + I + S + (X + IM) \)
D) \( AE = C + I - G - (X + IM) \)
E) \( AE = C + I + G + (X - IM) \).
44) When desired consumption exceeds disposable income, desired saving is ______; when desired consumption is less than the disposable income, desired saving is ______.
   A) positive; positive
   B) positive; negative
   C) negative; negative
   D) zero; positive
   E) negative; positive

![Graph showing supply and demand curves](image)

**FIGURE 23-3**

45) Consider Figure 23-3. Initially the economy is in equilibrium at point A. An unexpected shock then shifts both the AD and the AS curves as shown and results in a new equilibrium represented by point B. Which of the following events could cause such a shock?
   A) a decrease in the world price of oil
   B) a decrease in firms’ desired investment expenditures
   C) an increase in the net tax rate
   D) a decrease in labour productivity
   E) an increase in factor prices

46) Other things being equal, when the price level rises, the real value of money holdings ______; when the domestic price level falls, the real value of money holdings ______.
   A) falls; rises
   B) falls; is not affected
   C) is not affected; falls
   D) is not affected; rises
   E) rises; falls

47) Consider a simple macro model with demand-determined output. An exogenous change in the price level shifts the AE curve because the change affects desired ______ and desired ______.
   A) government purchases; net exports
   B) consumption; imports
   C) consumption; investment
   D) investment; consumption
   E) consumption; net exports
48) Suppose the Bank of Montreal wants a five percent real rate of return on all its loans, and anticipates an annual inflation rate of four percent. It should therefore lend its money at a nominal interest rate of
   A) ten percent. B) nine percent. C) five percent. D) four percent. E) one percent.

49) The aggregate consumption function is based on a number of assumptions. Given these assumptions, which of the following statements is true?
   A) The MPC and APC are always less than unity.
   B) Below a certain level of income, $APC > 1$ and $MPC < 0$.
   C) The $APC$ is greater than zero and less than one, and the $MPC$ falls as income rises.
   D) The $MPC$ is greater than zero and less than one, and the $APC$ falls as income rises.
   E) As income rises, the $MPC$ falls and the $APC$ rises.

50) If 27 million people are employed and 3 million people are unemployed, what is the unemployment rate?
   A) 89%
   B) 10%
   C) 11%
   D) 90%
   E) indeterminable from the information provided.

51) If nominal national income increased by 20 percent over a certain period of time while real national income increased by 10 percent, then
   A) inflation has decreased during this time period.
   B) the price level has declined by about 10 percent.
   C) the labour force increased by 10 percent.
   D) the price level has increased by approximately 10 percent.
   E) everybody in the economy became worse off.

52) The real rate of interest is equal to the nominal interest rate
   A) minus the rate of inflation.
   B) multiplied by the rate of inflation.
   C) plus the price level.
   D) plus the risk ratio.
   E) divided by the price level.
53) Refer to Figure 21-1. The APC will be equal to one (1.0) when disposable income is equal to
A) \( Y_1 \).
B) \( Y_3 \).
C) 0.
D) desired saving.
E) \( Y_2 \).

54) Consider the government's budget balance. Suppose \( G = 300 \) and the government's net tax revenue is 0.3\( Y \). The government budget is in surplus only when \( Y \) is
A) less than 350.
B) less than 1000.
C) greater than 1000.
D) greater than 2500.
E) greater than 3000.

55) In macroeconomics, the term "capital goods" refers to
A) all factors of production.
B) man-made factors of production, such as tools, machines, and factory buildings.
C) money.
D) stocks and bonds.
E) the financial resources necessary to start a firm.
The table below shows national income and imports. The level of exports is fixed at $300. All figures (in table and questions) are in millions of dollars.

<table>
<thead>
<tr>
<th>Income (Y)</th>
<th>Imports (IM)</th>
<th>Net Exports (NX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>150</td>
<td>a</td>
</tr>
<tr>
<td>3000</td>
<td>250</td>
<td>b</td>
</tr>
<tr>
<td>4000</td>
<td>350</td>
<td>c</td>
</tr>
<tr>
<td>5000</td>
<td>450</td>
<td>d</td>
</tr>
</tbody>
</table>

**TABLE 22–1**

56) Refer to Table 22–1. What are the correct values for the level of net exports (a, b, c, and d) at each level of national income?
   A) a = $300, b = $300, c = $300, d = $300
   B) a = −$150, b = −$50, c = $50, d = $150
   C) a = $150, b = $250, c = $350, d = $450
   D) a = $150, b = $50, c = −$50, d = −$150
   E) not enough data to determine.

57) Real national income
   A) refers to national income with no adjustment for changes in prices.
   B) changes by the same amount and in the same direction as does nominal national income.
   C) refers to national wealth but is not an indicator of current production.
   D) always equals nominal national income.
   E) changes only when the underlying quantities change.

58) Consider a small economy with real GDP of $1 billion and the number of workers employed equal to 2500. Which of the following is the best measure of labour productivity in this economy?
   A) real GDP per hour worked = $400
   B) real GDP per hour worked = $200
   C) real GDP per employed worker = $400 000
   D) real GDP per employed worker = $200 000
   E) indeterminable from the information provided

59) Consider a simple macro model with demand-determined output and the following specific parameter values:
   a) Marginal propensity to consume out of disposable income = 0.6
   b) Marginal propensity to consume out of national income = 0.48
   c) Marginal propensity to import = 0.23
   The simple multiplier without government and foreign trade in this economy is _______ and the simple multiplier with government and foreign trade in this economy is _______.
   A) 2.5; 2.5  B) 2.5; 4  C) 2.5; 1.33  D) 1.67; 1.33  E) 1.67; 4

60) An exogenous fall in the domestic price level causes an increase in wealth and
   A) a rise in desired consumption.
   B) a downward shift in the AE curve.
   C) a downward shift of the net export function.
   D) a fall in desired investment.
   E) a fall in government purchases.
Answer Key
Testname: MTFALL10V2

1) C
2) D
3) C
4) C
5) B
6) E
7) E
8) A
9) B
10) D
11) C
12) D
13) A
14) A
15) B
16) E
17) A
18) E
19) B
20) B
21) C
22) C
23) D
24) A
25) E
26) B
27) A
28) B
29) D
30) E
31) E
32) C
33) C
34) D
35) A
36) C
37) B
38) B
39) C
40) E
41) D
42) A
43) E
44) E
45) A
46) A
47) E
48) B
49) D
50) B
Answer Key
Testname: MTFALL10V2

51) D
52) A
53) E
54) C
55) B
56) D
57) E
58) C
59) C
60) A