

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?

- A) fluctuations in the level of aggregate economic activity
- B) relative wages of skilled and unskilled workers
- C) short-run growth models
- D) standards of living of individuals
- E) choices of individual consumers and firms

Answer: A

2) Primarily, macroeconomists use microeconomic principles to study

- 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.

Answer: A

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

- A) What is the effect of penalties on crime?
- B) How should governments be elected?
- C) What causes the health care industry to prosper?
- D) What causes sustained economic growth?
- E) How should a labour contract be structured?

Answer: D

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

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

Answer: D

5) Gross Domestic Product is

- A) the aggregate quantity of income earned by consumers who have jobs during some specified period of time.
- B) the quantity of goods produced by Canadian residents domestically and abroad during some specific period of time.
- C) the quantity of goods produced within a country's borders during some specific 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

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

Answer: A

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

Answer: D

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

Answer: B

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

Answer: E

- 10) The relationship between the level of growth of an economic variable,  $g_t$ , and its level,  $y_t$ , is best approximated as

A)  $g_t = \frac{y_t}{y_t - 1}$ .

B)  $g_t = \log y_t - \log y_{t-1}$ .

C)  $y_t = \log g_t - \log g_{t-1}$ .

D)  $\log g_t = y_t - y_{t-1}$ .

E)  $g_t = \log y_t + \log y_{t-1}$ .

Answer: B

- 11) The business cycle component of the log of real per capita GDP is equal to
- A) log of trend per capita GDP - log of actual real per capita GDP.
  - B) log of trend GDP divided by log of actual real GDP.
  - C) log of trend GDP - log of actual real GDP.
  - D) log of actual real per capita GDP - log of trend per capita GDP.
  - E) log of actual real GDP divided by log of trend GDP.

Answer: D

12) Sometimes it is useful to separate economic movements into

- A) employment growth and business cycle fluctuations.
- B) short-run growth and business cycle fluctuations.
- C) long-run growth and business cycle fluctuations.
- D) short-run growth and income movements.
- E) long-run growth and income movements.

Answer: C

13) 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 \_\_\_\_\_.

- A) trend GDP; trend GDP
- B) trend GDP; deviations from trend in GDP
- C) trend income; deviation from trend in income
- D) deviations from trend in GDP; trend GDP
- E) deviations from trend in GDP; deviations from trend in GDP

Answer: B

14) Since World War II, deviations from trend real GDP per-capita are

- A) at most  $\pm 5\%$ .
- B) typically  $< 0$ .
- C) typically larger than  $\pm 5\%$ .
- D) at least  $\pm 10\%$ .
- E) at most  $\pm 1\%$ .

Answer: A

15) To be useful, macroeconomic models

- A) must be simple.
- B) provides a lot of intricate details.
- C) must be extremely realistic.
- D) must be complete, accurate descriptions of the world.
- E) never generate testable hypothesis.

Answer: A

16) The basic structure of a macroeconomic model includes the description of this feature

- A) consumers' preferences over goods.
- B) the density of cities.
- C) isotherms.
- D) a herd of cows.
- E) average annual rainfall.

Answer: A

17) What do we assume about households and firms?

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

Answer: B

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

Answer: B

- 19) In a competitive equilibrium, we assume that markets are such that
- A) firms are price takers while consumers set prices.
  - B) consumers behave strategically in setting their prices.
  - C) both consumers and firms are price takers.
  - D) firms behave strategically in setting their prices.
  - E) consumers are price takers while firms set prices.

Answer: C

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

- 20) 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.

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

- 21) The development most responsible for the wide-spread introduction of macroeconomic models built upon solid microeconomic foundations was the
- A) work of John Maynard Keynes.
  - B) rational expectations revolution.
  - C) the work of Milton Friedman.
  - D) popularization of the Solow growth model.
  - E) development of the Keynesian coordination failure model.

Answer: B

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

Answer: B

- 23) Macroeconomists tend to agree on
- A) nothing.
  - 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) approaches to constructing models of economic growth.

Answer: E

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

Answer: D

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

Answer: C

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

Answer: A

- 27) What is produced and consumed in the economy is determined jointly by
- A) the economy's productive capacity and the preferences of consumers.
  - B) government policies and the economy's productive capacity.
  - C) standards of living and business cycles.
  - D) the behaviour of business managers and government policies.
  - E) the preferences of consumers and the behaviour of business managers.

Answer: A

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

Answer: C

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

Answer: D

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

Answer: C

- 31) Countries gain from
- 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

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

Answer: A

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

Answer: D

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

Answer: B

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

Answer: D

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

Answer: E

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

Answer: B

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

Answer: A

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

Answer: E

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

Answer: A

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

Answer: B

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

Answer: B

- 43) In the 2008-09 recession, the government deficit
- A) decreased.
  - B) stayed roughly constant.
  - C) increased.
  - D) would have increased if the government had intervened.
  - E) was reduced by the Bank of Canada.

Answer: C

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

Answer: D

- 45) 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) more generous unemployment benefits in Canada.
  - C) U.S. government policy was more effective in managing business cycles.
  - D) less generous unemployment benefits in Canada.
  - E) more job training programs in Canada.

Answer: B

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

Answer: A

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

Answer: C



48) What explains the trends in nominal interest rates?

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

Answer: C

49) The real interest rate is

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

Answer: E

50) Reductions in the real interest rate caused by monetary policy

- A) are permanent.
- B) never happen.
- C) do not occur during recessions.
- D) are always harmful.
- E) are temporary.

Answer: E

51) Since 1980, the real interest rate

- A) has declined only in Canada.
- B) has decreased worldwide.
- C) has increased worldwide.
- D) has decreased only in Canada.
- E) has been roughly constant.

Answer: B

52) 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 real interest rate is always negative.
- D) interest rates fall due to government policy.
- E) the nominal interest rate is approximately equal to the real interest rate.

Answer: A

53) During the 2008–2009 recession in Canada

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

Answer: D

- 54) 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) of the European Union.
  - D) greater trade restrictions elsewhere in the world make trade with Canada attractive.
  - E) the United States has a fragile financial sector.

Answer: A

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

Answer: C

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

Answer: B

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

Answer: B

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

Answer: B

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

Answer: B

60) The 2007-08 recession in Canada

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

Answer: D

61) The Canadian recession of 1981-82

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

Answer: E