

**Chapter 1 Introduction**

1) Which of the following topics is a primary concern of macro economists?

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

Answer: E

Type: MC Page Ref: P. 2

2) Primarily, macroeconomists use microeconomic principles to study

- A) business cycles and trends in the stock market.
- B) long-run economic growth and business cycles.
- C) trends in the stock market and long-term economic growth.
- D) long-run economic growth and employment policies.
- E) short run and long run economic growth.

Answer: B

Type: MC Page Ref: P. 3

3) Gross Domestic Product is

- A) the quantity of goods and services produced within a country's borders 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 aggregate quantity of income earned by consumers who have jobs 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: A

Type: MC Page Ref: P. 3

4) Since 1870 in Canada, there has been

- A) sustained economic growth until the Great Depression followed by little growth since.
- B) sustained economic growth.
- C) too many business cycles to sustain economic growth.
- D) GDP measured in 2002 dollars is largely unchanged.
- E) only small growth in average incomes.

Answer: B

Type: MC Page Ref: P. 3

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

Answer: D

Type: MC Page Ref: P. 3

- 6) Since 1870, the typical Canadian
- A) became ten-times as rich.
  - B) remained equally as rich.
  - C) remained as rich as the typical American.
  - D) became twice as rich.
  - E) became almost fourteen-times as rich.

Answer: E

Type: MC Page Ref: P. 3

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

Answer: C

Type: MC Page Ref: P. 3

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

Answer: A

Type: MC Page Ref: P. 4

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

Answer: E

Type: MC Page Ref: P. 4

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

Answer: D

Type: MC Page Ref: P. 5

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

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

Answer: E

Type: MC Page Ref: P. 5

12) Sometimes it is useful to separate economic movements into

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

Answer: E

Type: MC Page Ref: P. 5

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

Answer: A

Type: MC Page Ref: P. 5-6

14) The largest deviation in real per capita GDP from trend GDP occurred

- A) during World War II.
- B) during the post World War II period.
- C) in the 1990s.
- D) during the Great Depression and World War II.
- E) in the 1980s.

Answer: D

Type: MC Page Ref: P. 7

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

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

Answer: B

Type: MC Page Ref: P. 7

16) Macroeconomists use models

- A) to explain long-run economic growth.
- B) to explain everything that occurs in the world.
- C) to provide accurate descriptions of the world.
- D) that explain government deficit and debt.
- E) to explain international trade.

Answer: A

Type: MC Page Ref: P. 8

17) To be useful, macroeconomic models

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

Answer: C

Type: MC Page Ref: P. 8

18) The structure of a macroeconomic model involves

- A) realistic features such as money.
- B) the available technology.
- C) the incomes of consumers.
- D) the goods and services demanded by government.
- E) the behaviour of government.

Answer: B

Type: MC Page Ref: P. 8

19) What do we assume about households and firms?

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

Answer: D

Type: MC Page Ref: P. 9

20) In economic models, the economy must

- A) be in competitive equilibrium.
- B) be in a situation where all resources are used.
- C) have low inflation.
- D) have government surpluses.
- E) be where prices that consumers pay are lower than what sellers are offering.

Answer: A

Type: MC Page Ref: P. 9

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

- A) consumers are price takers while firms set prices.
- B) firms are price takers while consumers set prices.
- C) both consumers and firms are price takers.
- D) firms behave strategically in setting their prices.
- E) consumers behave strategically in setting their prices.

Answer: C

Type: MC Page Ref: P. 9

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

- A) development of the Keynesian coordination failure model.
- B) the work of Milton Friedman.
- C) work of John Maynard Keynes.
- D) popularization of the Solow growth model.
- E) rational expectation revolution.

Answer: E

Type: MC Page Ref: P. 10

23) According to the *Lucas critique*, changes in economic policy are likely to have important effects on

- A) the preferences of consumers.
- B) international trade.
- C) microeconomic behaviour.
- D) government.
- E) the available amounts of natural resources.

Answer: C

Type: MC Page Ref: P. 10-11

24) According to real business cycle theory, the primary causes of business cycles are

- A) shocks to aggregate demand.
- B) monetary factors.
- C) waves of self-fulfilling optimism and pessimism.
- D) fiscal shocks.
- E) technology shocks.

Answer: E

Type: MC Page Ref: P.11

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

Answer: C

Type: MC Page Ref: P. 11

26) New Keynesian Theory

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

Answer: D

Type: MC Page Ref: P. 11-12

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

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

Answer: B

Type: MC Page Ref: P. 12

28) In free-market economies

- A) tend to produce socially efficient outcomes.
- B) generally perform worse than socially planned economies.
- C) are hampered by social inefficiencies that are very common.
- D) are technically but not socially efficient.
- E) perform well, but suffer from many social inefficiencies.

Answer: A

Type: MC Page Ref: P. 12

29) Unemployment, at the aggregate level

- A) is zero in a perfect world.
- B) is a sign of market failures.
- C) is avoidable.
- D) can be prevented with sound government policy.
- E) is important for a well functioning economy.

Answer: E

Type: MC Page Ref: P. 12

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

Answer: B

Type: MC Page Ref: P. 13

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

Answer: A

Type: MC Page Ref: P. 13

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

Answer: A

Type: MC Page Ref: P. 13

- 33) In an economy with money, changing its quantity
- A) can stimulate long-run economic growth.
  - B) affects quantities, but not prices.
  - C) does not change real quantities.
  - D) improves welfare for the poor more than the rich.
  - E) changes real quantities in the long-run.

Answer: C

Type: MC Page Ref: P. 13

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

Answer: A

Type: MC Page Ref: P. 14

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

Answer: E

Type: MC Page Ref: P. 14

- 36) The Phillips curve represents a
- A) short-run relationship but not a long-run one.
  - B) trade-off policy makers can exploit in the long-run.
  - C) a long-run relationship but not a short-run one.
  - D) stable long-run trade-off, exploitable by government policy.
  - E) both a long-run and a short-run relationship.

Answer: A

Type: MC Page Ref: P. 14

- 37) A trade-off between aggregate output and inflation
- A) is theoretically possible, but has never been observed in practice.
  - B) may exist in the short run, but not in the long run.
  - C) exists in both the short run and the long run.
  - D) is part of the Keynesian sticky wage model.
  - E) may exist in the long run, but not in the short run.

Answer: B

Type: MC Page Ref: P. 14

- 38) Growth in productivity slowed from the
- 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.

Answer: E

Type: MC Page Ref: P. 15

- 39) Two plausible hypothesis to explain the productivity slowdown are
- A) globalization of capital markets and reductions in tariffs.
  - B) high interest rates and slower economic growth.
  - C) large government budget deficits and large balance of trade deficits.
  - D) adjustments to new technologies and failures in the educational system.
  - E) measurement problems and adjustments to new technologies.

Answer: E

Type: MC Page Ref: P. 15-16



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

Answer: A

Type: MC Page Ref: P. 17

- 41) The Canadian government budget was
- A) continuously in surplus from 1961 to 2002.
  - 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 1980s and has been in surplus ever since.
  - D) continuously in deficit from 1961 to the mid 1970s and in surplus from 1975 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.

Answer: B

Type: MC Page Ref: P. 17

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

Answer: E

Type: MC Page Ref: P. 18

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

Answer: C

Type: MC Page Ref: P. 18

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

Answer: B

Type: MC Page Ref: P. 18

45) Which of the following best describes the unemployment rate in Canada compared to the U.S.?

- 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 are generally equal.
- D) They were equal before the 2008-2009 recession, then higher in Canada after.
- E) It has been consistently lower in the U.S., before and after the 2008-2009 recession.

Answer: A

Type: MC Page Ref: P. 18-19

46) In the second half of the 20<sup>th</sup> century, the Canadian inflation rate was at its highest in the period from

- A) the mid-1980s to the early 1990s.
- B) 1990 to 2002.
- C) 1656 to the early 1970s.
- D) 1960 to the early 1970s.
- E) the mid-1970s to the early 1980s.

Answer: E

Type: MC Page Ref: P. 19

47) Long-run inflation tends to

- A) reduce employment, output, and consumption.
- B) reduce consumption, but increase employment and output.
- C) increase output and consumption, but reduce employment.
- D) increase employment, but reduce output and consumption.
- E) reduce output and employment, but increase consumption.

Answer: A

Type: MC Page Ref: P. 20

48) What explains the trends in nominal interest rates?

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

Answer: A

Type: MC Page Ref: P. 21

49) The real interest rate is

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

Answer: C

Type: MC Page Ref: P. 21

50) When there is high inflation

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

Answer: C

Type: MC Page Ref: P. 21

51) Real interest rates hit a low of -5% in

- A) 1965.
- B) 1975.
- C) 1985.
- D) 1995.
- E) 2005.

Answer: B

Type: MC Page Ref: P. 23

52) Since 2010 in Canada, the real interest rate

- A) has been below zero.
- B) has been increasing.
- C) has been positive but decreasing.
- D) has been below the nominal interest rate.
- E) has been roughly constant.

Answer: A

Type: MC Page Ref: P. 22-23

53) The behaviour of the real interest rate since 2008 suggests the Bank of Canada

- A) decreased the growth rate of the money supply.
- B) was primarily concerned with rising inflation.
- C) increased the growth rate of the money supply.
- D) was politically motivated in its actions.
- E) kept the growth rate of the money supply roughly constant.

Answer: C

Type: MC Page Ref: P. 23

54) During the 2008-2009 recession in Canada,

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

Answer: A

Type: MC Page Ref: P. 23

55) When a country has a current account balance deficit, the country

- A) always has a large government budget deficit.
- B) is always borrowing from abroad.
- C) is always lending abroad.
- D) always has a large government budget surplus.
- E) is always borrowing from domestic residents.

Answer: B

Type: MC Page Ref: P. 24

56) When a country has a current account balance surplus, the country

- A) always has a large government budget deficit.
- B) is always lending abroad.
- C) is always borrowing from abroad.
- D) always has a large government budget surplus.
- E) is always borrowing from domestic residents.

Answer: B

Type: MC Page Ref: P. 24

57) Canada has had a current account surplus from

- A) the late 1960s.
- B) 1961-2005.
- C) the late 1980s until the 2008-2009 recession.
- D) the late 1990s until the 2008-2009 recession.
- E) 2002.

Answer: D

Type: MC Page Ref: P. 24

58) Persistent current account deficits make sense if

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

Answer: C

Type: MC Page Ref: P. 25

59) One important influence on the current account surplus is

- A) government spending.
- B) taxes.
- C) standards of living.
- D) interest rates.
- E) productive capacity.

Answer: A

Type: MC Page Ref: P. 24-25

60) The recovery from the 2008-2009 recession in Canada has been

- A) weak relative to other countries in the world.
- B) roughly equivalent to the U.S. recovery.
- C) close to a double-dip recession.
- D) plagued by slow growth in real GDP.
- E) strong relative to other countries in the world.

Answer: E

Type: MC Page Ref: P. 25

61) One explanation for the better performance of the Canadian economy relative to the U.S. since the 2008-2009 recession is

- A) a better regulated financial sector in Canada.
- B) more generous employment insurance benefits in Canada.
- C) better fiscal stimulus in Canada relative to the U.S.
- D) too much financial regulation in the U.S. relative to Canada.
- E) a more resilient financial sector in the U.S.

Answer: A

Type: MC Page Ref: P. 27

62) The worldwide recession of the late 2000s

- A) happened despite strict government regulation.
- B) was caused by excessively high interest rates.
- C) can be characterized as a moral hazard problem.
- D) caused the collapse of the U.S. housing market.
- E) began with the collapse of the Asian currencies.

Answer: C

Type: MC Page Ref: 28

63) What is the difference between nominal and real interest rates, and why do economists deem them both to be important economic indicators?

Answer: 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.

Type: ES Page Ref: P. 21-23