

**York University**  
*Atkinson Faculty of Liberal and professional Studies*  
*Department of Economics*  
ECON1010C – Term Test 1  
July 6, 2005

**Instructor:** Sharif F. Khan

**Time Limit:** 1 hour 20 Minutes

**Instructions:**

*Important!* Read the instructions carefully before you start your exam.

Mark your selections for **PART A** on the multiple choice answer card in PENCIL. If you make changes, be sure to erase completely. Please record your name and student number on the multiple choice answer card. Hand in the card inside your answer booklet.

Write your answers for **Part B** and **Part C** in the booklet provided. Record your student number and name on the booklet. Hand in the card for Part A inside the answer booklet.

**Marking Scheme:**

Part A [30 marks] TWENTY multiple-choice questions – 1.5 marks each

Part B [10 marks] TWO of Three True/ False/Uncertain questions- 5 marks each

Part C [10 marks] ONE problem solving question

**Calculators:**

Non-programmable calculators are permitted.

**Notes:**

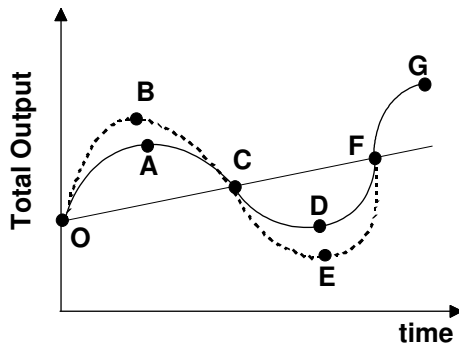
- Proctors are unable to respond to queries about the interpretation of exam questions. Do your best to answer exam questions as written.
- You are NOT ALLOWED to use any textbooks, notes or other study materials. Academic dishonesty is a serious academic offence. A finding of academic dishonesty carries penalties that may include expulsion from the University.

**Part A****Multiple-Choice Questions****[30 marks]**

Each question is worth 1.5 marks. There is no negative marking for wrong answers.

Answer all questions on the multiple choice answer card in **PENCIL**. If you make changes, be sure to erase completely. Please record your name and student number on the multiple choice answer card. Hand in the card inside your answer booklet.

To answer each question correctly, you have to choose the best answer from the given four choices.



- Refer to the graph above. A movement from point D to G represents a(n):
  - trough.
  - downturn.
  - recession.
  - expansion
  
- If per capita real output is growing faster than real GDP, it *must* be the case that:
  - real GDP is increasing.
  - real GDP is decreasing.
  - total population is increasing.
  - total population is decreasing.
  
- Edward has quit his job because he has become dissatisfied with the work that he has been asked to do. Because he has highly marketable skills, he expects to find a new job soon. What type of unemployment describes Edward's situation?
  - Cyclical unemployment.
  - Full unemployment.
  - Structural unemployment.
  - Frictional unemployment.

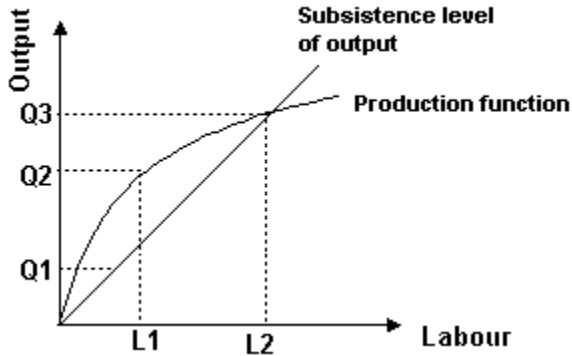
4. Use the following table to calculate the unemployment rate. Select the correct answer from the options below.

	In millions
Civilian population	300
People incapable of working	25
People not looking for work	75
Unemployed workers	8

- A) 2 percent.  
 B) 4 percent.  
 C) 6 percent.  
 D) 8 percent.
5. In 1969, the United States CPI was 37 (1982-84 = 100) and in 1999 it was 166. From these figures we can conclude that United States prices increased about \_\_\_\_\_ percent between 1969 and 1999.  
 A) 80  
 B) 125  
 C) 210  
 D) 350
6. Suppose the GDP deflator was 100 in 1998 and 95 in 1999. If nominal GDP in 1999 was 1% smaller than in 1998, then the rate of real GDP growth in 1999 was:  
 A) -5.0 percent.  
 B) -4.0 percent.  
 C) 4.0 percent.  
 D) 5.0 percent.
7. Suppose that a bank expects inflation to be 2 percent and charges borrowers an interest rate of 4 percent accordingly. Now suppose that inflation is actually 5 percent. In this case, inflation:  
 A) does not affect the distribution of income.  
 B) redistributes income from the bank to the bank's borrowers.  
 C) redistributes income from the bank's borrowers to the bank.  
 D) redistributes income from the bank to the bank's creditors.

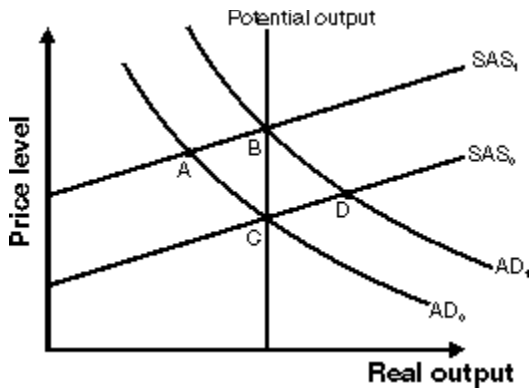
8. If Saudi Arabia has invested substantially more money in foreign countries than foreigners have invested in Saudi Arabia, then we might expect:
- A) Saudi net foreign factor income to be negative.
  - B) Saudi net foreign factor income to be zero.
  - C) Saudi GDP to exceed Saudi GNP.
  - D) Saudi GNP to exceed Saudi GDP.
9. GDP is \$7 trillion. If consumption is \$3.5 trillion, investment is \$1.4 trillion, and government purchases are \$2.1 trillion, then:
- A) Exports are equal to imports.
  - B) Exports exceed imports.
  - C) imports exceed exports.
  - D) net exports cannot be determined from the available information.
10. Use the following information to answer the question: There are three firms in an economy: X, Y, and Z. Firm X buys \$200 worth of goods from firm Y and \$300 worth of goods from firm Z, and produces 250 units of output at \$4 per unit. Firm Y buys \$150 worth of goods from firm X, and \$250 worth of goods from firm Z, and produces 300 units of output at \$6 per unit. Firm Z buys \$75 worth of goods from X, and \$50 worth of goods from firm Y, and produces 500 units at \$2 per unit. Given this information, what is the economy's GDP?
- A) \$1825.
  - B) \$2700.
  - C) \$2775.
  - D) \$3800.
11. Which of the following is a flow concept?
- A) Body weight.
  - B) Wealth.
  - C) Litres of water in a pool.
  - D) Expenditures.
12. Suppose Botswana doubles its income in 6 years while South Africa doubles its income in 9 years. According to the Rule of 72, the growth rate in Botswana:
- A) is 3 percentage points higher than the growth rate in South Africa.
  - B) is 4 percentage points higher than the growth rate in South Africa.
  - C) is 8 percentage points higher than the growth rate in South Africa.
  - D) is 12 percentage points higher than the growth rate in South Africa.

13. If per capita output falls by 2 percent and population grows by 3 percent, output:
- A) falls by 5 percent.
  - B) falls by 1 percent.
  - C) grows by 1 percent.
  - D) grows by 5 percent.



14. Refer to the graph above. If employment were at L1, the Classical growth model would predict that:
- A) Growth would cease since the surplus is maximized.
  - B) Growth would decrease because starvation would ensue.
  - C) Growth would increase because the surplus would lead to population growth.
  - D) Growth would cease since the economy was in a stationary state .
15. New growth theories emphasize the importance of all of the following *except*:
- A) positive externalities.
  - B) diminishing marginal productivity.
  - C) technology.
  - D) learning by doing.
16. If the price level rises, the interest rate effect will cause:
- A) investment and the quantity of aggregate demand to increase.
  - B) investment and the quantity of aggregate demand to decrease.
  - C) investment to increase and the quantity of aggregate demand to decrease.
  - D) investment to decrease and the quantity of aggregate demand to increase.

17. If productivity increases by 6% but wages increase by 2%, then it is most likely that:
- A) the price level will rise by 4 percent.
  - B) the price level will fall by 4 percent.
  - C) the price level will rise by 8 percent.
  - D) the price level will fall by 8 percent.



18. Refer to the graph above. If the economy is experiencing an inflationary gap, in the long run, production costs will:
- A) increase, causing the economy to move from D to B.
  - B) decrease, causing the economy to move from A to C.
  - C) increase, causing the economy to move from C to B.
  - D) decrease, causing the economy to move from B to C.
19. Refer to the graph above. If the economy is experiencing a recessionary gap, in the long run, production costs will:
- A) increase, causing the economy to move from A to B.
  - B) decrease, causing the economy to move from A to C.
  - C) increase, causing the economy to move from C to B.
  - D) decrease, causing the economy to move from B to C.
20. From the mid-1980s to the late 1990s, the value of the Japanese yen fell from over 300 yen per dollar to about 120 yen per dollar. This would likely:
- A) shift the Canadian AD curve to the left.
  - B) shift the Canadian AD curve to the right.
  - C) make the Canadian AD curve flatter.
  - D) make the Canadian AD curve steeper.

**Part B**                      **True/ False/ Uncertain Questions**                      **[10 marks]**

*Each question is worth 5 marks.*

*Answer two of the following three questions in the answer booklet.*

*Explain why the following statement is True, False, or Uncertain according to economic principles. Use diagrams and/or numerical examples where appropriate. Unsupported answers will receive no marks. It is the explanation that is important.*

- B1.** In the short-run, a continual decline in real estate price would lead an economy into a recession.
- B2.** In the long-run, an economic boom in the U.S. would increase both the price level and real output of Canada.
- B3.** The unemployment rate is zero percent at the potential output.

**Part C****Problem Solving Question****[10 marks]**

*This section is worth 10 marks.*

*Answer all parts of this question in the answer booklet.*

Given the following data about the economy:

Transfer Payments	\$72
Interest paid by consumers	4
Net Exports	4
Indirect business taxes (less subsidies)	47
Net foreign factor income	2
Corporate Income tax	64
Contribution for Employment Insurance (EI) and Canada Pension Plan (CPP)	35
Personal tax and nontax payments	91
Undistributed corporate profits	51
Gross private investment	185
Government purchases	195
Personal consumption	500
Depreciation	59

- C1.** Calculate Gross Domestic Product (GDP) and Gross National Product (GNP). [2+1 marks]
- C2.** Calculate Net Domestic Product (NDP) and National Income (NI). [1+2 marks]
- C3.** Calculate Personal Income (PI). [2 marks]
- C4.** Calculate Disposable Personal Income. [2marks]