ECON 1010C   Department of Economics
Principles of Macroeconomics   Atkinson College
Instructor: Sharif F. Khan   York University
                                                        Summer 2005

Assignment 1
Deadline: June 25, 2005

Part A   Multiple-Choice Questions

1. If a country's real GDP and population are, respectively, $500 billion and 200 million, then its per capita real output is:
   A) $250.
   B) $1,000.
   C) $2,500.
   D) $10,000.

2. The business cycle is:
   A) the term used to describe fluctuations in output around its long-term trend.
   B) the length of time required by a firm to buy inputs and produce and sell output.
   C) the pattern of increases and decreases in the money supply.
   D) regular and predictable.

Use the following to answer question 3:
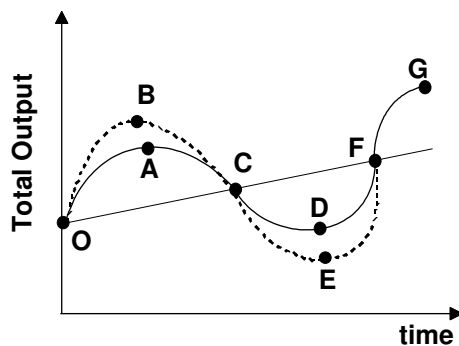
3. Refer to the graph above. A complete business cycle is represented by:
   A) A to G
   B) O to D
   C) O to C
   D) C to G

4. Which of the following is *not* a leading economic indicator?
   A) The TSE 300 stock price index.
   B) New orders for durable goods.
   C) An index of housing starts.
   D) Sales of exports.

5. Frictional unemployment is caused by:
   A) A general downturn in the economy.
   B) people quitting a job just long enough to look for and find another one.
   C) people who are unemployable due to alcohol or drug addictions.
   D) people losing a job when their skills become obsolete due to technological innovations.

6. Workers at a car-manufacturing plant in Flint Michigan are laid off because the economy is weak and GM cars aren't selling well. GM isn't sure when the plant will reopen. What type of unemployment describes the workers' situation?
   A) Cyclical unemployment.
   B) Full unemployment.
   C) Structural unemployment.
   D) Frictional unemployment.

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

	In millions
Civilian population	270
People incapable of working	70
People not looking for work	60
Employed workers	133

   A) 3 percent.
   B) 5 percent.
   C) 7 percent.
   D) 9 percent.

8. According to Okun's rule of thumb, an increase in the rate of unemployment from 6 percent to 8 percent would be expected to cause income in the economy to:
   A) fall by 4 percent.
   B) rise by 4 percent.
   C) fall by 2 percent.
   D) rise by 2 percent.

9. If the CPI in year 2 equals 110 and the CPI in year 3 equals 121, it can be concluded that consumer prices:
   A) rose from year 2 to year 3 by 11.
   B) rose from year 2 to year 3 by 11%.
   C) rose from year 2 to year 3 by 10%.
   D) are the same in year 2 as in the base year.

10. If nominal output increased from $4 trillion to $4.2 trillion and real output increased from $4 trillion to $4.1 trillion, then prices must have:
   A) increased nearly 2.5 percent.
   B) decreased nearly 2.5 percent.
   C) increased 5 percent.
   D) decreased 5 percent.

11. General Motors' European branch, Opel, is one of the largest car companies in Europe. Imagine Opel makes profits of $1.5 billion in 1999 and the tax rate in Europe is 40 percent. Also assume the tax rate in the United States is 30 percent. How much will U.S. GDP rise due to Opel's success?
   A) $0.00 billion
   B) $0.90 billion.
   C) $1.05 billion.
   D) $1.50 billion.

12. If a dealer purchases a 16th century vase for $4000 and sells it to a collector for $5000, how much has been added to GDP?
   A) nothing, because the vase was produced centuries ago.
   B) $1000.
   C) $4000.
   D) $5000.

Use the following to answer question 13:

	In billions of dollars
Consumption	5100
Investment	1100
Transfer payments	1050
Government expenditures	1400
Exports	850
Imports	950
Net foreign factor income	20

13. Calculate GDP using the information above.
    A) 6400
    B) 7500
    C) 9400
    D) 10470

Use the following to answer question 14:

	In billions of dollars
Consumption	3600
Investment	800
Transfer payments	750
Government expenditures	1000
Exports	650
Imports	450
Net foreign factor income	-30

14. Calculate GNP using the table above.
    A) 5570
    B) 5630
    C) 6220
    D) 6250

15. Given the following information, we can infer that national income equals:

Profits	$100
Rent	$150
Compensation to employees	$500
Interest	$150
Taxes	$100
Transfer payments	$50

   A) $700.
   B) $750
   C) $900.
   D) $950.

16. The Rule of 72 implies that a country with a growth rate of 8 percent will double its income in:
   A) 4 years.
   B) 6 years.
   C) 9 years.
   D) 12 years.

17. If output increases by 5 percent and population growth is 3 percent, per capita output:
   A) grows by 2 percent.
   B) grows by 3 percent.
   C) grows by 5 percent.
   D) grows by 8 percent.

18. Suppose the quantities of labour, land, and capital each increase by 10 percent and output also increases by 10 percent. In that case, returns to scale are:
   A) decreasing.
   B) constant.
   C) increasing.
   D) not defined since more than one input is changing.

Use the following to answer question 19:
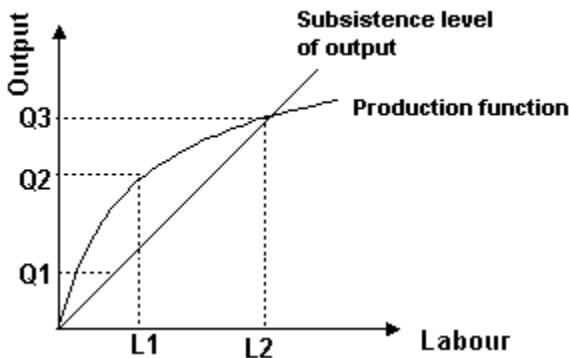
19. Refer to the graph above. At what employment level would the economy ultimately come to rest according to the Classical growth model?
    A) 0 since population growth would ultimately lead to mass starvation.
    B) L1 since the surplus between output and subsistence output (Q2 - Q1) is maximized at this level.
    C) L2 since any surplus leads to additional population growth and since starvation occurs at any employment level above L2.
    D) An employment level beyond L2 since population growth is unbounded.

20. In a stationary state:
    A) output is constant and the surplus between output and subsistence is maximized.
    B) population is constant and the surplus between output and subsistence is maximized.
    C) the population continues to grow but the surplus is eliminated.
    D) output per worker is constant at the subsistence level.

21. All of the following policies encourage per capita growth *except*:
    A) policies that encourage saving and investment.
    B) policies that reduce population growth.
    C) policies that improve education.
    D) policies that shelter important domestic industries from international competition.

22. Say's Law states that:
    A) demand creates its own supply.
    B) supply creates its own demand.
    C) supply always exceeds demand.
    D) demand always exceeds supply.

Part B   **True/ False/ Uncertain Questions**

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

B-1.   Exports are subtracted from imports in calculating Canadian GDP because exports are not available for domestic consumption.

B-2.   Unanticipated inflation benefits creditors and savers.

Part C   Problem Solving Question

C-1.   Chapter 6 Problems and Exercises Question No. 5

C-2.   Chapter 6 Problems and Exercises Question No. 7

C-3.   Chapter 7 Problems and Exercises Question No. 7