ECON 1010C
Principles of Macroeconomics
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Assignment 2

Deadline: July 2, 2005

Part A Multiple-Choice Questions

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

1. A fall in the price level _______ the value of money in people's pockets, so the quantity of aggregate demand _______.
   A) reduces, falls.
   B) reduces, rises.
   C) increases, falls.
   D) increases, rises.

2. An increase in real money balances resulting from a lower price level will:
   A) reduce both interest rates and investment.
   B) reduce interest rates and increase investment.
   C) increase interest rates and reduce investment.
   D) increase both interest rates and investment.

3. In the 1990s, the price level in Japan fell relative to the price level in the United States. Other things held equal one would expect that:
   A) U.S. exports to Japan would rise and U.S. imports from Japan would decline.
   B) U.S. exports to Japan would decline and U.S. imports from Japan would rise.
   C) both U.S. exports to Japan and U.S. imports from Japan would rise.
   D) both U.S. exports to Japan and U.S. imports from Japan would rise.

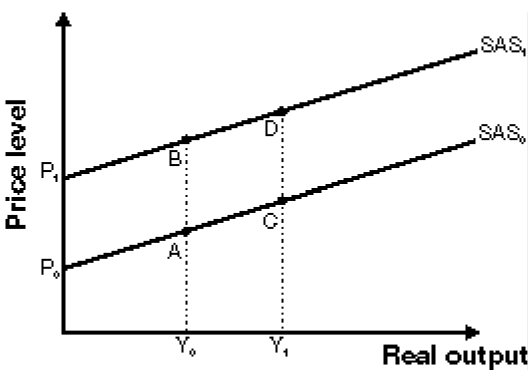
4. All of the following effects cause the AD curve to slope downward except the:
   A) international effect.
   B) interest rate effect.
   C) substitution effect.
   D) wealth effect.

5. A fall in a foreign country's income will most likely cause:
   A) a reduction in Canadian exports, so the Canadian aggregate demand curve shifts left.
   B) a reduction in Canadian exports, so the Canadian aggregate demand curve shifts right.
   C) an increase in Canadian exports, so the Canadian aggregate demand curve shifts left.
   D) an increase in Canadian exports, so the Canadian aggregate demand curve shifts right.

6. Which of the following will cause the Canadian aggregate demand curve to shift to the right?
   A) lower current price level.
   B) lower foreign income.
   C) lower U.S. income.
   D) a higher expected future price level.

7. If the Bank of Canada increases the money supply, the AD curve would:
   A) shift to the left.
   B) shift to the right.
   C) become flatter.
   D) become steeper.

Use the following to answer questions 8-9:

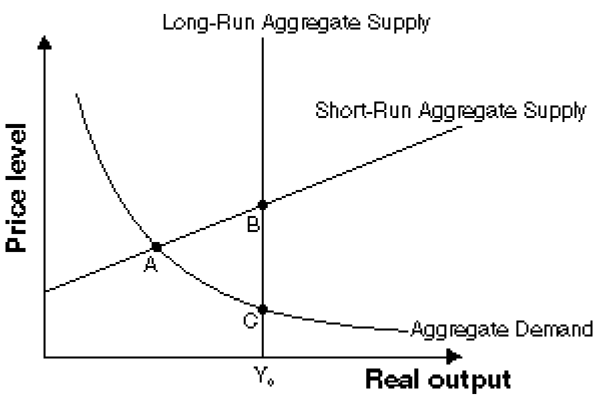


8. Refer to the above graph. A movement from A to B is most likely to be caused by:
   A) an increase in input prices.
   B) a decrease in input prices.
   C) an increase in aggregate demand.
   D) a decrease in aggregate demand.

9. Refer to the graph above. A movement from A to C is most likely to be caused by:
   A) an increase in input prices.
   B) a decrease in input prices.
   C) an increase in aggregate demand.
   D) a decrease in aggregate demand.

10. The long-run aggregate supply curve shows the output level an economy can produce:
   A) when firms adjust quantity rather than price.
   B) when capital is fully employed.
   C) when labour is fully employed.
   D) when both capital and labour are fully employed.

Use the following to answer questions 11-13:

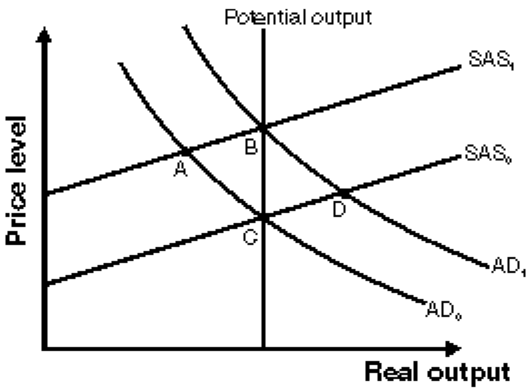


11. Refer to the graph above. The economy is in a short-run equilibrium at:
   A) point A.
   B) point B.
   C) point C.
   D) no point in the graph.

12. Refer to the graph above. The economy is in a long-run equilibrium at:
   A) point A.
   B) point B.
   C) point C.
   D) no point in the graph.

13. Refer to the graph above. The economy is in both a short-run and a long-run equilibrium at:
    A) point A.
    B) point B.
    C) point C.
    D) no point in the graph.

Use the following to answer questions 14-15:



14. 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.

15. 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.

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. In the short-run, a decrease in the value of Canadian dollar leads to a decrease in both the price level and real output of Canada.

B-2. In the long-run, an oil-price shock leads to an increase in the price level and decrease in the real output of an oil importing country.

Part C Problem Solving Question

C-1. Chapter 9 Problems and Exercises Question No. 3

C-2. Chapter 9 Problems and Exercises Question No. 4

C-3. Chapter 9 Problems and Exercises Question No. 6

C-4. Chapter 9 Problems and Exercises Question No. 7