

A. Encircle the most appropriate answer for each of the following multiple-choice questions.(60)

1. Unrestricted international trade tends to result in _____ domestic prices in the exporting country and make domestic producers _____
- (a) higher; worse off.
 - (b) lower; better off.
 - (c) higher; better off.
 - (d) lower; worse off.
 - (e) no change in; neither better off nor worse off.

2. People in a simple economy consume only pop, crackers, and cucumbers. If the base period is 2002, the Consumer Price Index in 1992 is _____.

	Price (dollars)		Quantity	
	1992	2002	1992	2002
Pop	0.75	1.10	100	120
Crackers	1.25	2.10	300	280
Cucumbers	2.00	3.00	200	190

- a. 129.
 - b. 157.
 - c. 64.
 - d. 152.
3. If the price of a pop was 15 cents in 1950 when the consumer price index (CPI) was 20 and \$1.00 in 2000 when the CPI was 114, then the price of 1950 pop in 2000 dollar is _____.
- a. 1.14
 - b. 1.00
 - c. 0.85
 - d. 1.17
4. If a nation has a comparative advantage in the production of a good,
- (a) it can produce that good at a lower opportunity cost than its trading partner.
 - (b) it can produce that good using fewer physical resources than its trading partner.
 - (c) it can benefit by restricting the imports of that good.
 - (d) it must be the only country with the ability to produce that good.
 - (e) both (a) and (c).

5. If the Bank of Canada intervenes in the foreign exchange market by buying Canadian dollars, the exchange rate (the value of Canadian dollar) _____.

- a. depreciates.
- b. appreciates.
- c. appreciates.
- d. depreciates.

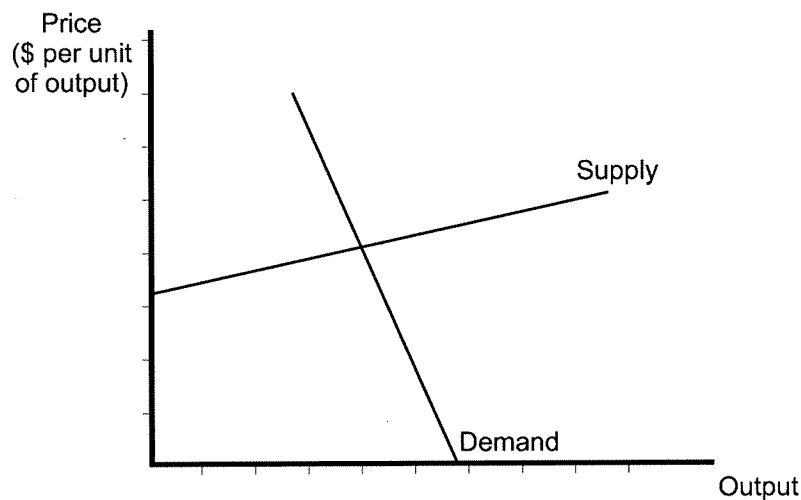
6. Government of Canada regulates the way all the public projects are constructed. What is the effect of this regulation on the market for private projects (assume private and public projects are substitutes)?

- (a) The number of private construction will increase.
- (b) This has no effect on the private construction projects.
- (c) The number of private construction will decrease as well.
- (d) There is not enough information to determine what happens in the private market.

7. A competitive profit-maximizing firm should hire workers up to the point where

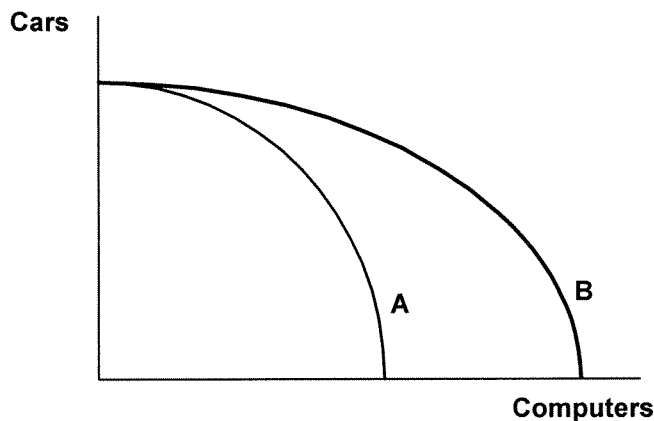
- (a) the wage, the rental price of capital, and the rental price of land are all equal.
- (b) the marginal product of labor equals zero and the production is maximized.
- (c) the marginal product of labor equals the wage.
- (d) the value of marginal product of labor equals the wage.
- (e) the price of goods produced is equal to the wage.

8. Given the diagram below, the burden of a specific tax



- (a) is shared about evenly between consumers and producers.
- (b) falls mostly on consumers.
- (c) falls mostly on producers.
- (d) is indeterminate without more information on the price elasticities.

9. The balance of trade is defined as the
- amount of goods and services a country sells to the rest of the world.
 - value of exports minus the value of imports.
 - value of goods and services a country buys from the rest of the world.
 - value of goods and services a country buys from the rest of the world.
 - value of exports divided by the value of imports.
10. In the production possibility frontier (PPF) shown below, the shift of the production possibility frontier from A to B was most likely caused by



- more labor availability in the economy.
 - more capital availability in the economy.
 - a general technological breakthrough.
 - a technological breakthrough in car production.
 - a technological breakthrough in computer production.
11. If Canada has a lower inflation rate than the United States and the difference in inflation rates persists for some years, the U.S. dollar _____.
- will depreciate against the Canadian dollar to the point where \$1 U.S. equals \$1 Canadian.
 - will depreciate against the Canadian dollar.
 - will appreciate against the Canadian dollar.
 - will appreciate against the Canadian dollar to the point where \$1 U.S. equals \$1 Canadian.
12. Suppose a frost destroys some of the Florida orange crops. At the same time, suppose consumer tastes shift toward orange juice. What would we expect to happen to the equilibrium price and quantity in the market for orange juice?
- the impact on both price and quantity is ambiguous.

- (b) both price and quantity will increase.
- (c) price will increase, quantity will decrease.
- (d) price will decrease, quantity is ambiguous.
- (e) price will increase, quantity is ambiguous.

13. Technological improvements in agriculture that shift the supply of agricultural commodities to the right (most likely) tend to

- (a) reduce total revenue to farmers because the demand for food is inelastic.
- (b) reduce total revenue to farmers because the demand for food is elastic.
- (c) increase total revenue to farmers because the demand for food is inelastic.
- (d) increase total revenue to farmers because the demand for food is elastic.
- (e) have no effect on revenue because demand is relatively inelastic.

14. If the Bank of Canada shifts government funds from itself to the (chartered) banks, the banks' reserves _____ and the banks' ability to make loans _____.

- a. increase; increase.
- b. increase; decrease.
- c. decrease; increase.
- d. decrease; decrease.

15. Other things being equal, when the Bank of Canada cuts its bank rate:

- a. the money supply tends to fall.
- b. bank reserves tend to expand.
- c. bank lending tends to fall.
- d. none of the above occurs.
- e. all of a, b and c.

16. If the economic growth rate is 3 % a year, then real GDP will triple in approximately _____ years.

- a. 43.
- b. 33.
- c. 23.
- d. 37.
- e. 30.

17. 11. Given the following Production Table

	<u>Hours required to produce 1 unit</u>	
	Cheese	Bread
England	5	5
Spain	4	2

- a. England should export Cheese and Spain should export Bread.
 - b. Spain should export Cheese and England should export Bread.
 - c. England and Spain should not trade.
 - d. Spain should export both Cheese and Bread.
18. The fundamental force that generates international trade is
- (a) the need for more goods and services.
 - (b) absolute advantage.
 - (c) comparative advantage.
 - (d) the existence of tariffs.
 - (e) trading blocs.
19. The tax revenue will be maximum when
- (a) the marginal revenue (MR) from each unit increase in tax rate is positive.
 - (b) the MR from each unit increase in tax rate is zero.
 - (c) the MR from each unit of tax rate is negative.
 - (d) the MR from each unit of increase in tax rate is zero or positive.
 - (e) the tax rate is very high.
20. During the period of time with high unemployment, a country can increase the production of one good or service
- a. without decreasing the production of something else.
 - b. but must decrease the production of something else.
 - c. and must increase the production of something else.
 - d. by using the resources in the production process twice.
21. In order to lower the interest rate, the Bank of Canada ____ government securities in open market operations, so that banks' reserves ____ and the quantity of money _____.
- (a) buys; decrease; increases.
 - (b) sells; decrease; decreases.
 - (c) sells; increase; decreases
 - (d) buys; increase; increases.
22. Starting with initial long-run equilibrium, a sudden decrease in optimism about future business conditions will cause (in the short run):
- (a) an increase in output and a reduction in the price level.
 - (b) an increase in both output and the price level.
 - (c) a reduction in both output and the price level.
 - (d) a reduction in output and an increase in the price level.

23. When the price floor set by the government is higher than the equilibrium price,
- (a) there is excess demand.
 - (b) buyers desire to purchase more than is produced.
 - (c) it has no effect on the market outcome.
 - (d) sellers want to sell less than buyers wish to purchase.
 - (e) there is excess supply.

24. Assume that steak and potatoes are substitutes. When the price of steak goes up, the demand curve for potatoes

- (a) shifts to the left.
- (b) shifts to the right.
- (c) remains constant.
- (d) shifts to the right initially and then returns to its original condition.
- (e) shifts to the left and then returns to the original condition.

25. The table shows the quantities of oranges *or* apples that Simon can pick when he allocates different numbers of hours to each task. Simon works 4 hours a day. When Simon increases production of oranges from 525 baskets to 625 baskets, the opportunity cost of a basket of oranges is _____.

Hours	Oranges (baskets)	Apples (Baskets)
0	0	0
1	200	400
2	375	750
3	525	1050
4	625	1300

- a. 250 baskets of apples.
 - b. 2.5 baskets of apples.
 - c. 4 baskets of apples.
 - d. 100 baskets of apples.
26. If households pay a fixed annual fee for trash disposal,
- (a) households will all tend to produce the same amount of garbage.
 - (b) households have no incentive to cut back on the amount of garbage they generate.
 - (c) that fee will provide households with an incentive to cut back on the amount of garbage they generate.
 - (d) that fee will discourage households from throwing out reusable materials.
 - (e) that fee will discourage households from throwing out toxic or otherwise harmful materials.

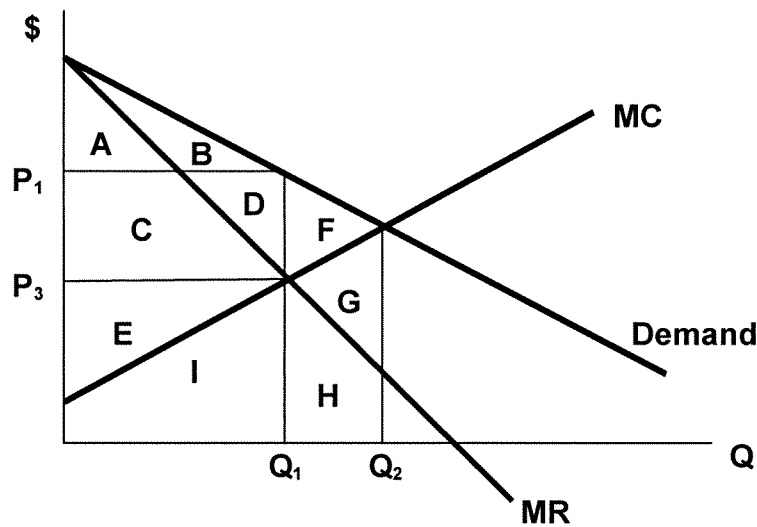
27. If the government wants to raise higher amount of revenue, then it should tax more on the goods

- (a) whose demand is elastic.
- (b) whose demand is inelastic.
- (c) that are normal.
- (d) that are in short supply.
- (e) that are in excess supply.

28. Oil refiners can refine a barrel of petroleum so that it yields either more home heating oil or more diesel fuel. If the price of diesel fuel falls, there is

- (a) an increase in the supply of home heating oil.
- (b) a decrease in the supply of home heating oil.
- (c) an increase in the quantity of home heating oil supplied.
- (d) a decrease in the quantity of home heating oil supplied.
- (e) an increase in the demand for home heating oil.

Use the following figure to answer questions 29 to 30



29. The monopolist's revenue is equal to

- (a) $C + D + E + I$.
- (b) $E + I$.
- (c) $F + G + H$.
- (d) none of the above.

30. If the monopolist can perfectly discriminate prices, its total surplus will be equal to area

- (a) $A + B + C + D + F$.
- (b) $C + D + E + F$.
- (c) $C + D + E$.
- (d) $A + B + C + D + E + F$.

31. A cost function is given by: $C = 200 + 4Q$, where Q = production level. When Q increases to a very large level, the value of average cost approaches to

- (a) 200.
- (b) 4.
- (c) 0.
- (d) It cannot be determined with the given information.

32. The following is the information on the gasoline market in Vancouver.

Price (dollars per gallon)	Quantity demanded (gallons of gasoline)	Quantity supplied (gallons of gasoline)
1.73	337,982	441,074
1.68	396,398	428,008
1.65	412,031	412,031
1.62	417,899	391,665

If the price of a gallon of gasoline is \$1.65,

- (a) there is a surplus of gasoline in Vancouver.
- (b) there is a shortage of gasoline in Vancouver.
- (c) the gasoline market is in equilibrium.
- (d) without more information we cannot determine if there is a surplus, a shortage, or an equilibrium in the gasoline market.
- (e) there is neither a surplus nor a shortage but the market is not in equilibrium.

33. When the percentage change in the quantity demanded exceeds the percentage change in price, then demand is

- (a) inelastic.
- (b) unit elastic.
- (c) elastic.
- (d) completely elastic.
- (e) Indeterminate.

34. Tacos and pizza are substitutes. If a 2 % change in the price of a taco leads to a 4 % change in the demand for pizza, the cross elasticity of demand equals

- (a) $-1/2$.
- (b) $1/2$.
- (c) -2 .
- (d) 2 .
- (e) 4 .

35. In a competitive market for a private good with no price or quantity regulations, no external cost nor external benefit, low transactions costs, and no taxes or subsidies.

- a) the allocation of resources is planned by the government.
- b) production is organized by government organizations.
- c) efficiency can be attained in the market with no government intervention.
- d) efficiency is usually be achieved by majority rule.
- e) efficiency is usually be achieved by majority rule.

36. Why do some workers lose their job when a minimum wage level is increased?

- a) The increase in labor costs decreases the supply of the product, thereby raising the price of the good so that the equilibrium quantity decreases to zero.
- b) The increase in the wage rate decreases the quantity of labor demanded.
- c) The demand for labor is perfectly inelastic.
- d) The supply of labor decreases.
- e) The demand for labor is perfectly elastic.

37. If a perfectly competitive firm raised the price of its product.

- (a) its profits would increase.
- (b) the output it sells will decrease to zero.
- (c) rival firms will follow suit and raise their prices also.
- (d) the firm will be forced to advertise more.
- (e) its total revenue would rise but its total cost would rise by more.

38. Firms exit a competitive market when they incur an economic loss. In the long run, this exit means that the economic losses of the surviving firms

- (a) increase.
- (b) decrease until they equal zero.
- (c) decrease until economic profits are earned.
- (d) don't change.
- (e) might change but more information is needed about what happens to the price of the good as the firms exit.

39. Which of the following is true about the following game?

		ABC Inc.	
		Offer Rebate	No Rebate
XYZ Corp	Offer Rebate	20, 10	30, 0
	No Rebate	12, 16	20, 4

- (a) ABC's dominant strategy is to offer a rebate.
- (b) ABC's dominant strategy is not offer a rebate.
- (c) XYZ's dominant strategy is to offer a rebate.
- (d) XYZ's dominant strategy is not offer a rebate.
- (e) Both ABC and XYZ have offer a rebate as a dominant strategy.

40. If the economy has been producing at a point where real GDP is less than potential GDP, what can the government do to restore real GDP to potential GDP?

- (a) cut government expenditures on goods and services.
- (b) increase taxes.
- (c) cut taxes.
- (d) raise the interest rate.
- (e) decrease the quantity of money.

B. Answer the following questions as shortly and as precisely as possible.(20)

1. By 2002, the boom in software industries completely faded away (and as a result the demand for software tumbled). If computers and software engineers are perfect complements in the production process, discuss (with a diagram) how will this software-market crash affect the number of Software Engineers employed and the number of Computers purchased? (6 marks)

2. Canadian dollar has been appreciating for the past few years.
- a. What is a possible effect of this appreciation on the Canadian imports/exports and hence *real GDP*? Explain with the help of a diagram. (4 marks)
 - b. What **direct** action can the Bank of Canada (BOC) take in the foreign exchange market to prevent the CAD dollar from appreciating further? Draw diagrams to show the effect of this policy on *exchange rate* and *real GDP*. (4 marks)

3. David Dodge, the chairperson of BOC, successfully kept the Canadian economy expanding throughout 2001-05, despite recession in the United States. What policy Mr. Dodge might have implemented to accomplish this challenging task? Draw graph(s) to illustrate this policy and its likely side effects. (6 marks)