

Mid-Term Test
Econ 204-F01

Friday, 10th October 2003

Duration: 35 Minutes

Total Marks: 60

Note:

- (1.) There are fifteen questions. Answer all of them.
- (2.) All questions carry equal marks.
- (3.) All questions are multiple-choice type.
- (4.) Cross the right answer in the question paper (use ink).
- (5.) Don't forget to write down your name and student number.
- (6.) Only non-programable calculator is allowed.
- (7.) Space is provided at the end of question paper to do the rough work.

Best of Luck !

Student Name

Student Number

Questions

- (1) A tour company purchases five new boats at \$ 200 thousand each to rent to vacationing couples. The company sells its old boats to the public for \$500 thousand. The net increase in GDP of these transactions was
- A) \$ 500,000
 - B) \$1,000,000
 - C) \$ 1,250,000
 - D) \$ 1,500,000
- (2) In 2001 private saving in country XYZ was \$ 112 billion, investment was \$ 114.5 billion, and the current account balance was — \$ 26.5 billion. How much was the Government of XYZ saving?
- A) – \$ 24 billion
 - B) – \$ 39 billion
 - C) \$ 29 billion
 - D) \$ 39 billion
- (3) One problem with using market values to measure GDP is that
- A) you cannot compare completely heterogeneous goods by using their dollar values.
 - B) some useful goods and services are not sold in markets.
 - C) prices for some goods change every year.
 - D) market values of export goods are usually priced in foreign currencies.
- (4) Firms hire labor at the point where the
- A) nominal wage rate equals the marginal product of labor.
 - B) real wage rate equals the marginal revenue product of labor.
 - C) nominal wage rate equals the marginal revenue product of labor.
 - D) real wage rate equals the marginal revenue product of capital.
- (5) An adverse supply shock, such as a reduced supply of raw materials, would
- A) increase the marginal product of labor.
 - B) decrease the marginal product of labor.
 - C) decrease the marginal product of capital, but have no effect the marginal product of labor.
 - D) not affect the marginal product of labor.

- (6) For the economy of Victoria, the MPN is given by $MPN = 400 - 0.2N$ where N is aggregate employment. The aggregate quantity labor supplied is $500 + 10 * (1 - t)w$ where t is the income tax rate and w is the real wage. Assume that the income tax rate is 50%. What is the before-tax real wage?
- A) 150
 - B) 200
 - C) 250
 - D) 300
- (7) A rise in wealth reduces labor supply. What happens to current employment and the real wage rate?
- A) Both employment and the real wage rate would increase.
 - B) Both employment and the real wage would decrease.
 - C) Employment would increase and the real wage would decrease.
 - D) Employment would decrease and the real wage would increase.
- 8) An increase in the real wage rate will cause
- A) the labor supply curve to shift to the right.
 - B) the labor demand curve to shift to the left.
 - C) both the labor supply curve and labor demand curve to shift to the right.
 - D) a movement along the labor demand curve.
- (9) Which of the factors listed below might cause the Ricardian equivalence proposition to be violated?
- A) There may be international capital inflow and outflows.
 - B) Consumers may not understand that increased government borrowing today is likely to lead to higher future taxes.
 - C) There may be constraints on the level of government spending.
 - D) There may be constraints on the level of government taxation.
- (10) Which of the following machines has the lowest user cost? Machine A costs \$ 15,000 and depreciates at a 25% rate, machine B costs \$ 10,000 and depreciates at a 20% rate, machine C costs \$ 20,000 and depreciates at a 10% rate, and machine D costs \$ 17,000 and depreciates at an 11% rate. The expected real rate of interest is 5%.
- A) machine A
 - B) machine B
 - C) machine C
 - D) machine D

- (11) A higher real rate of interest will
- A) increase the profitability of new investment.
 - B) decrease lending of funds from firms to other economic agents.
 - C) reduce the desired investment of all firms.
 - D) reduce the desired investment of only those firms that have to borrow.
- (12) Any change in the economy that raises desired national saving for a given value of the real interest rate will shift the desired national saving curve
- A) to the right and increase the real rate of interest.
 - B) to the right and decrease the real rate of interest.
 - C) to the left and increase the real interest rate.
 - D) to the left and decrease the real interest rate.
- (13) An economy has government purchase of 1000. Desired national saving and desired investment are given by
- $$S^d = 200 + 5000r + 0.10Y - 0.20G$$
- $$I^d = 1000 - 4000r$$
- When the full-employment level of output equals 5000, then the real rate of interest that clears the goods market will be
- A) 1.11%
 - B) 5.56%
 - C) 16.67%
 - D) 21.11%
- (14) If a Canadian firm buys stereos from a Japanese firm and the Japanese firm uses the dollars it gets to buy Canadian Treasury Bonds, what items are recorded in the Canadian Balance of Payments accounts?
- A) credit the trade account; credit the capital account
 - B) credit the trade account; debit the capital account
 - C) debit the trade account; debit the capital account
 - D) debit the trade account; credit the capital account
- (15) A capital account surplus necessarily implies
- A) a balance of payments surplus.
 - B) a current account surplus.
 - C) a current account deficit.
 - D) an increase in the nation's official reserve assets.

Space for Rough Work

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