

These are some practice questions for CHAPTER 19. Each question should have a single answer. But be careful. There may be errors in the answer key!

1. Real national income is also known as
  - a. nominal national income.
  - b. current-dollar national income.
  - c. constant-dollar national income.
  - d. net national income.
  - e. none of the above
2. The term "national income" refers to
  - a. all sales of both current production and used goods.
  - b. only those sales of currently produced goods sold to other nations.
  - c. the value of a nation's total wealth.
  - d. the value of the income generated by the production of total output.
  - e. total current spending by all households.
3. Suppose Honest Joe's Used Cars buys a used car for \$2,000 and resells it for \$3,000. The result of Honest Joe's transaction is to
  - a. decrease the value of national product by \$3,000.
  - b. decrease the value of national product by \$1,000.
  - c. leave the value of national product unchanged.
  - d. increase the value of national product by \$1,000.
  - e. increase the value of national product by \$3,000.
4. The "circular-flow" diagram in macroeconomics shows that producing a certain value of output gives rise to
  - a. a larger value of claims on that output, due to value added.
  - b. a smaller value of claims on that output, due to taxation.
  - c. a smaller value of claims on that output, due to importing.
  - d. a smaller value of claims on that output, due to household saving.
  - e. an equal value of claims on that output.
5. Short-run fluctuations in real national income and the price level, are
  - a. generally ignored by economists, because these fluctuations do not affect behaviour of other variables such as the unemployment rate.
  - b. generally ignored by economists, because these fluctuations are constant and predictable.
  - c. referred to in economics as 'background noise'.
  - d. referred to in economics as 'the business cycle'.
  - e. unimportant to the study of economics.

6. Common usage of the term "recession" defines it as a fall in the real GDP for at least
  - a. one quarter.
  - b. two quarters.
  - c. three quarters.
  - d. one year.
  - e. two years.
7. If a country's labour force is 15 million people, and 1 million are unemployed, the country's unemployment rate is
  - a. 2.5 percent.
  - b. 3.3 percent.
  - c. 4.5 percent.
  - d. 6.7 percent.
  - e. 9.0 percent.
8. Suppose the city of Calgary, Alberta has a population of 900,000 and a labour force of 475,000. Employment is 450,000 and 30,000 workers are unemployed. The unemployment rate is approximately
  - a. 3.3 percent.
  - b. 6.3 percent.
  - c. 6.7 percent.
  - d. 47.2 percent.
  - e. 50.5 percent.
9. Index numbers measure
  - a. a change in absolute prices.
  - b. a change in quantities of commodities sold.
  - c. a change in relative prices.
  - d. an absolute change in some broad average over some particular time span.
  - e. a percentage change in some broad average over some particular time span.
10. If nominal national income increased 10 percent over a certain period of time while real national income increased by 20 percent then
  - a. everybody in the economy became worse off.
  - b. inflation has occurred during this time period.
  - c. the labour force increased by 10 percent.
  - d. the price level has declined by about 10 percent.
  - e. the price level has increased by approximately 10 percent.
11. If the expected rate of inflation is 3 percent, and contract negotiators agree that real wages should rise by 5 percent, the two sides will agree to an increase in money wages of
  - a. 2 percent.
  - b. 3 percent.
  - c. 5 percent.
  - d. 8 percent.
  - e. 15 percent.

12. If the Consumer Price Index changes from 120 in year one to 144 in year two, the rate of inflation in the intervening year is
- 10 percent.
  - 12.5 percent.
  - 20 percent.
  - 25 percent.
  - 30 percent.
13. Consider the following information regarding the expenditure behaviour of 10-year olds in 1990 and 1999.

**Expenditure Behaviour in 1990**

Total	Price	Quantity per month	Expenditure per month
<b>Expenditure</b>			
Comics	\$0.50	5	\$2.50
Chocolate bars	\$1.00	4	\$4.00
Popsicles	\$0.15	10	\$1.50
TOTAL			
\$8.00			

**Expenditure Behaviour in 1999**

Total	Price	Quantity per month	Expenditure per month
<b>Expenditure</b>			
Comics	\$0.65	5	\$3.25
Chocolate bars	\$1.20	4	\$4.80
Popsicles	\$0.20	10	\$2.00
TOTAL			
\$10.05			

Using 1990 as the base year, what is the value of this consumer price index for 10-year olds in 1999?

- 1.256
- 0.796
- 125.625
- 100.125

14. If the price index is  $P_1$  in a given year and  $P_2$  in the next year, the inflation rate is calculated as
- $(P_2 - P_1) \times 100$
  - $(P_2/P_1) \times 100$
  - $(P_1/P_2) \times 100$
  - $[(P_2 - P_1)/P_1] \times 100$
  - $[(P_1 - P_2)/P_2] \times 100$
15. Which of the following is logically valid?
- If the rate of inflation is high, the nominal rate of interest must be high.
  - If the rate of inflation is less than the nominal interest rate, the real interest rate is positive.
  - If the real interest rate is less than the nominal interest rate, inflation must be zero.
  - If the real interest rate is less than the nominal interest rate, inflation must be negative.
  - If the nominal interest rate is high, the real interest rate must be high.
16. The real rate of interest is equal to the nominal interest rate
- divided by the price level.
  - minus the rate of inflation.
  - multiplied by the rate of inflation.
  - plus the risk ratio.
  - plus the price level.
17. If 5 French francs can be exchanged for one Canadian dollar, the dollar price of a franc is
- \$5.00
  - \$2.00
  - \$1.00
  - \$0.50
  - \$0.20
18. On the balance-of-payments accounts records:
- exports and imports of goods, only.
  - exports and imports of goods and services, only.
  - net exports of goods and services and international payments for investment and transfers of financial assets.
  - international payments for investment and transfers of financial assets, only.
  - international payments made to pay interest on government debt, only.

## Suggested Answers

1. c
2. d
3. d
4. e
5. d
6. b
7. d
8. b
9. e
10. d
11. d
12. c
13. c
14. d
15. b
16. b
17. e
18. c