

**Simon Fraser University**  
**Econ 102-1: The World Economy**  
**Mid Term Examination**  
**February 2009**

**First Name:**

**Last Name:**

**Student Number:**

**Tutorial Section (number and/or day/time):**

**TA's Name:**

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**Instructions: Answer all questions. The total marks for this exam is 100. Please use the `bubble' sheet to answer the multiple choice questions (Part I), and the space provided in this booklet below each question to answer the short questions (Part II).**

**1.**

**2.1.**

**2.2.**

**2.3.**

**2.4.**

**Total:**

**I. Multiple choice questions (Total: 55 marks – 2.5 marks per question)**

1. Thomas Malthus's views about population and poverty rest on the ideas that
  - a. Population and food supply are both increasing at increasing rates;
  - b. Population increases at a constant rate and food supply cannot increase;
  - c. Population increases at an increasing rate and food supply increases at a diminishing rate;
  - d. Population and food supply are both increasing at decreasing rates.
  
2. A firm in India sells jackets to a U.S. department store chain. By itself, this sale
  - a. increases U.S. and Indian net exports.
  - b. decreases U.S. and Indian net exports.
  - c. increases U.S. net exports and decreases Indian net exports.
  - d. decreases U.S. net exports and increases Indian net exports.
  
3. If goods A and B are complements, an increase in the price of A will result in
  - a. more of good A sold.
  - b. more of good B sold.
  - c. less of good B sold.
  - d. no difference in the quantity sold of either good.
  
4. You lose your job and as a result you rent fewer DVDs. This shows that you consider DVDs to be a/an
  - a. normal good.
  - b. inferior good.
  - c. luxury good.
  - d. complementary good.
  
5. What will happen to the equilibrium price and quantity of traditional camera film if traditional cameras become more expensive, digital cameras become cheaper, the cost of the resources needed to manufacture traditional film falls and more firms decide to manufacture traditional film?
  - a. Price will fall and the effect on quantity is ambiguous.
  - b. Price will rise and the effect on quantity is ambiguous.
  - c. Quantity will fall and the effect on price is ambiguous.
  - d. The effect on both price and quantity is ambiguous.
  
6. On the spot market, the price of oil is about \$38 and it is \$50 on the future market for delivery in June 2009. We conclude that:
  - a. An airline company should buy its needs in oil today rather than waiting for June 2009;
  - b. An airline company would make a profit by buying oil today and reselling it in June 2009;
  - c. An airline company should simply wait for June 2009 before buying any oil;
  - d. None of the above

For questions 7 to 11, use the accompanying table.

Labor Hours needed to make one unit of:			Amount produced in 160 hours:	
	Toy	Computer	Toy	Computer
China	80	20	2	8
USA	160	32	1	5

7. According to the table, China and USA both could benefit by China specializing in
  - a. computer and USA specializing in toys.
  - b. neither good and USA specializing in both goods.
  - c. toys and USA specializing in computers.
  - d. both goods and USA specializing in neither good.
  
8. According to the table, China has an absolute advantage in
  - a. computer and USA has an absolute advantage in toys.
  - b. toys and USA has an absolute advantage in computers.
  - c. neither good and USA has an absolute advantage in both goods.
  - d. both goods and USA has an absolute advantage in neither good.
  
9. According to the table, China has a comparative advantage in
  - a. toys and USA has an absolute advantage in neither good.
  - b. computers and USA has an absolute advantage in toys.
  - c. toys and USA has an absolute advantage in computers.
  - d. computers and USA has an absolute advantage in both goods.
  
10. According to the table, the opportunity cost of 1 computer for USA is
  - a. 5 toys.
  - b. 1 toy.
  - c. 1/5 toy.
  - d. 4 toys.
  
11. According to the table, the opportunity cost of 1 computer for China is
  - a. 1 toy.
  - b. 1/2 toy.
  - c. 1/4 toy.
  - d. 4 toys.

12. If the world price of a product is higher than a country's domestic price we know that country
  - a. should import that product.
  - b. should no longer produce that product.
  - c. has a comparative advantage in that product.
  - d. could benefit by imposing a tariff on that product.
13. Each of the following are determinants of demand EXCEPT
  - a. tastes (or preferences).
  - b. technology.
  - c. income.
  - d. the price of related goods.
14. In the mobile phone industry, the number of buyers in a market increases and technological advancements also occur. What would we expect to happen in this market?
  - a. The equilibrium price would increase, but the impact on the amount sold in the market would be ambiguous.
  - b. The equilibrium price would decrease, but the impact on the amount sold in the market would be ambiguous.
  - c. Equilibrium quantity would increase, but the impact on equilibrium price would be ambiguous.
  - d. Both equilibrium price and equilibrium quantity would increase.
15. It is often said that, in most manufacturing sectors, labor in Canada is less productive than labor in the United States. It follows that
  - a. neither nation can benefit from trade.
  - b. Canada can benefit from trade but the United States cannot.
  - c. Canada will not have a comparative advantage in any manufacturing sector.
  - d. both nations can benefit from trade.
16. To compute GDP in Canada we
  - a. simply sum the number of final goods and services in Canada.
  - b. sum the cost of producing final goods and services in Canada.
  - c. use weights determined by a survey regarding how much people in Canada value different sorts of goods and services to compute GDP as a weighted average.
  - d. sum the market values of final goods and services in Canada.
17. If a Canadian citizen buys a television made in China by a Chinese firm,
  - a. Canada net exports (X-M) decrease, and Canada GDP decreases.
  - b. Canada net exports (X-M) are unaffected, and Canada GDP decreases.
  - c. Canada net exports (X-M) are unaffected, and Canada GDP is unaffected.
  - d. Canada net exports (X-M) decrease but Canada GDP is unaffected.

18. If an Asian country reported a nominal GDP of 85 billion in 2008 and 100 billion in 2007 and reported a general price index of 100 in 2008 and of 105 in 2007, then from 2007 to 2008, we would conclude that
  - a. real GDP and prices both rose.
  - b. real GDP rose and prices fell.
  - c. real GDP fell and prices rose.
  - d. real GDP and prices both fell.
  
19. Which of the following statements is accurate?
  - a. In rich countries, people typically live into their late seventies, while in poor countries, people typically live only until their fifties or early sixties.
  - b. In rich countries, almost all the population can read, while in poor countries, about half the population is illiterate.
  - c. Poor countries tend to have higher infant mortality rates, higher maternal mortality, and higher rates of child malnutrition than do rich countries.
  - d. All of the above are correct.
  
20. During a presidential campaign, the incumbent argues that he should be reelected because GDP grew by 12 percent during his 4-year term in office. You know that population grew by 4 percent over the period, and that the GDP deflator (or the consumer price index) increased by 6 percent during the past 4 years. You should conclude that real GDP per person
  - a. grew by more than 12 percent.
  - b. grew, but by less than 12 percent.
  - c. was unchanged.
  - d. decreased.
  
21. The demand for oil in a country unambiguously increases:
  - a. When national income falls and the price of oil rises;
  - b. When national income rises and the price of oil falls;
  - c. When national income falls and the price of oil falls;
  - d. When national income rises and the price of oil rises;
  
22. Hubbert's peak oil refers to oil production expected to start declining because
  - a. oil world reserves start drying up;
  - b. the economic crisis leads to a fall in the demand for oil;
  - c. of increases in alternatives sources of energy;
  - d. of the emergence of new technologies making the use of oil less important than it is today.

**Part II. Short questions (Total: 45 marks). Provide your answer in the space provided.**

**2.1. (13 marks)**

(i) (4) What are the 'Commanding Heights' of an economy? Define.

(ii) (4) Provide at least two examples 'Commanding Heights' from specific countries.

(iii) (5) Are the most important 'Commanding Heights' of a developed economies today the same or different than what they were during the first half of the 20<sup>th</sup> Century? Explain briefly and provide examples.

**2.2. (11 marks)**

(i) (5) Define the concept of 'property rights'.

(ii) (6) Explain briefly why property rights are crucial in a market economy.

**2.3. (10 marks)**

(i) (4) In the context of the 'Commanding Heights' DVD, what is the 'dependency theory'?

(ii) (6) Explain how such 'dependency theory' is reflected in the economic structures of South America.

**2.4. (11 marks)**

(i) (6) In the context of the 'Commanding Heights' DVD, explain what an economic 'Shock Therapy' is and when such a therapy is needed.

(ii) (5) Name two of the countries that experienced 'Shock Therapy' and briefly contrast their experience.