

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Suppose you found a \$100 bill that was stored under your grandmother's mattress and you decided to deposit this money in a Regina Bank. If the desired reserve ratio were 20 percent and all excess reserves were lent out, the new deposit of \$100 would lead to an expansion of the money supply of _____
- A) \$120. B) \$200. C) \$500. D) \$1200. E) \$2000.
- 2) Which of the following is consistent with the predictions of Gresham's law? _____
- A) The disappearance of U.S. coins circulating *in Canada* during periods when the Canadian dollar is worth less than the U.S. dollar.
- B) Debasement of a metallic money will be followed by inflation.
- C) An increase in the money supply will be followed by inflation.
- D) increased circulation of U.S. coin *in Canada* during periods when the Canadian dollar is worth significantly less than the U.S. dollar.
- E) Increases in the money supply led to the hyperinflation of the 1920s in Germany.
- 3) The basic functions of the Bank of Canada include _____
- A) acting as banker for the chartered banks.
- B) regulating the stock market.
- C) acting as a broker for large private firms.
- D) providing deposit insurance for Canadian dollar deposits.
- E) all of the above
- 4) The major problem of a fractionally backed, convertible currency is that of _____
- A) paper money being less durable than gold.
- B) perennial shortages of paper currency.
- C) counterfeiting.
- D) the inability to redeem the currency into metal if too much is issued.
- E) clipping if too little of the currency is issued by the central monetary authority.
- 5) The basic functions of the Bank of Canada include _____
- A) regulating the money supply.
- B) supporting the financial markets.
- C) acting as banker for the chartered banks.
- D) acting as lender of last resort.
- E) all of the above

Macroeconomics Study Questions

- 6) A central bank can create money by 6) _____
- A) increasing the rate of inflation.
 - B) purchasing government securities on the open market.
 - C) selling government treasury bills to the chartered banks.
 - D) selling some of its foreign-currency reserves for domestic currency.
 - E) issuing its own Central Bank bonds.
- 7) The basic functions of the Bank of Canada include 7) _____
- A) regulating the stock market.
 - B) acting as a lender of last resort to the commercial banks.
 - C) acting as a lender of last resort to the large primary manufacturing firms.
 - D) providing deposit insurance for Canadian dollar deposits.
 - E) all of the above
- 8) The Canada Deposit Insurance Corporation (CDIC) was set up to protect 8) _____
- A) member financial institutions in case of non-payment of loans from borrowers.
 - B) depositors with Canadian dollar accounts in any Canadian financial institution for up to a maximum of \$100 000 per institution.
 - C) depositors with Canadian dollar accounts in member institutions for up to a maximum of \$60 000 per bank.
 - D) depositors of any currency in any Canadian financial institution for up to a maximum of \$100 000 per institution.
 - E) member financial institutions in case of non payment of loans from the government.
- 9) If most individuals will accept paper currency in transactions and paper currency is convertible into gold, then banks can safely issue 9) _____
- A) more paper currency than the value of the gold they hold.
 - B) as much paper currency as they please.
 - C) paper currency equal to the bank's commercial debt divided by their gold reserves.
 - D) paper currency equal to a fraction of the gold they hold.
 - E) no more paper currency than the value of the gold they hold.
- 10) The Bank of Canada purchases \$5 million worth of government securities from an investment dealer with a cheque drawn on the Bank of Canada. The dealer deposits this cheque at a Canadian Chartered Bank. The desired reserve ratio of all banks is 25 percent. Assume all chartered banks are operating with no excess reserves and there is no cash drain. The Chartered Bank is immediately in a position to expand its loans by 10) _____
- A) \$5 million.
 - B) \$15 million.
 - C) \$3.75 million.
 - D) \$1.25 million.
 - E) \$20 million.

Macroeconomics Study Questions

- 11) Doug is saving money in a piggy bank to purchase a new snowboard next winter. This represents using money as 11) _____
- A) a store of value.
 - B) a medium of exchange.
 - C) a unit of account.
 - D) a medium of deferred payment.
 - E) all of the above
- 12) Jevan compares the unit price of chocolate bars in order to get the "best buy". This represents using money as 12) _____
- A) a store of value.
 - B) a unit of account.
 - C) a unit of deferred payment.
 - D) a medium of exchange.
 - E) all of the above
- 13) The Canadian dollar is 13) _____
- A) backed by taxpayers.
 - B) fully backed by gold, only.
 - C) fractionally backed by gold and silver.
 - D) debt money.
 - E) backed by neither gold nor silver.
- 14) If all the banks in the banking system collectively have \$20 million in cash reserves and have a desired reserve ratio of 5 percent, the maximum amount of demand deposits the banking system can support is 14) _____
- A) \$4 million.
 - B) \$40 million.
 - C) \$80 million.
 - D) \$100 million.
 - E) \$400 million.
- 15) The investment demand function (*Id* curve) describes the 15) _____
- A) positive relationship between investment, the rate of interest, and aggregate expenditure.
 - B) negative relationship between investment and aggregate expenditure.
 - C) negative relationship between the demand for money and the interest rate.
 - D) positive relationship between investment and the rate of interest.
 - E) negative relationship between the interest rate and investment.

- 16) According to the views of classical economists, if the money supply doubles, _____
- A) money prices will double.
 - B) relative prices will double.
 - C) there will be no effect on money prices.
 - D) money prices will be halved.
 - E) real income will double.

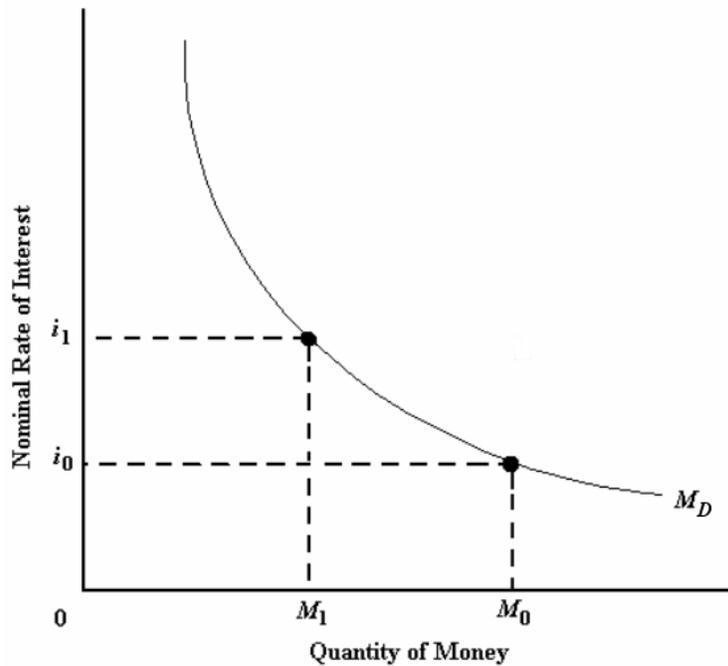


FIGURE 28-1

- 17) Referring to Figure 28-1, a leftward shift in the LP curve is caused by _____
- A) a decrease in either the price level or the real GDP.
 - B) an increase in the rate of interest.
 - C) an increase in the real GDP.
 - D) a decrease in the rate of interest.
 - E) an increase in the price level.

17) _____

- 18) One reason for the downward slope of the AD curve is that a rise in the price level leads to a relationship between the interest rate and equilibrium real GDP that is, _____
- A) inverse because, *ceteris paribus*, a rise in the price of bonds causes a rise in the interest rate.
 - B) inverse because, *ceteris paribus*, a rise in the price level raises the quantity of money demanded and thus raises the interest rate.
 - C) direct because, *ceteris paribus*, a rise in the price level lowers the quantity of money demanded.
 - D) direct because, *ceteris paribus*, a rise in the price level raises the quantity of money supplied.
 - E) inverse because, *ceteris paribus*, a rise in the price level causes an increase in the profits of firms.

18) _____

Macroeconomics Study Questions

- 19) A decrease in the money supply is most likely to _____ 19) _____
- A) raise interest rates, investment, and aggregate expenditures.
 - B) raise interest rates and investment, and lower aggregate expenditures.
 - C) lower interest rates, investment, and aggregate expenditures.
 - D) raise interest rates, lower investment, and lower aggregate expenditures.
 - E) lower interest rates, raise investment, and raise aggregate expenditures.
- 20) The speculative motive for holding money implies that the demand for money _____ 20) _____
- A) is less than the demand for holding bonds as long as the rate of interest exceeds zero.
 - B) varies positively with wealth and negatively with the rate of interest.
 - C) varies negatively with wealth and positively with the rate of interest.
 - D) has no relation to the rate of interest.
 - E) increases with the availability of credit cards.
- 21) Financial assets, as opposed to real assets, are _____ 21) _____
- A) more liquid than real assets.
 - B) created by borrowing and lending activities.
 - C) representative of a liability to the issuer and an asset to the purchaser.
 - D) such things as money, bank deposits and bonds.
 - E) all of these
- 22) A rise in the price level, given no change in the supply of money, will _____ 22) _____
- A) increase the demand for money and decrease aggregate expenditure.
 - B) decrease the demand for money and decrease aggregate demand.
 - C) increase the demand for money and increase aggregate expenditure.
 - D) decrease aggregate demand but not affect the demand for money.
 - E) decrease the demand for money and increase aggregate demand.
- 23) If a person is holding money for the purchase of goods and services, this demand for money is _____ 23) _____ known as the
- A) speculative motive.
 - B) nominal balance motive.
 - C) transactions motive.
 - D) real balance motive.
 - E) precautionary motive.
- 24) When I expect interest rates to rise in the near future, I will be willing to _____ 24) _____
- A) buy bonds, but only if their price falls.
 - B) sell bonds now.
 - C) put my money in a savings account rather than buy bonds.
 - D) buy bonds now.
 - E) maintain only the current holding of bonds.

Macroeconomics Study Questions

- 25) When the price level increases it causes households and business firms to try to _____
A) increase money balances, which drives interest rates up.
B) reduce money balances, which drives national income up.
C) reduce money balances, which drives interest rates up.
D) increase money balances, which drives interest rates down.
E) reduce money balances, which drives interest rates down.
- 26) Which one of the following statements correctly describes the transmission mechanism? _____
A) An increase in government spending causes the *AE* curve to shift upwards, leading to a higher GDP.
B) An increase in personal consumption leads to an upward shift in the *AE* curve and thereby increases real GDP.
C) An decrease in imports causes the *AE* curve to shift upwards, leading to a higher interest rate.
D) A decrease in the money supply leads to a lower interest rate, higher investment, an upward shift in the *AE* curve and a higher GDP.
E) An increase in the money supply leads to a lower interest rate, higher investment, an upward shift in the *AE* curve and a higher GDP.
- 27) The short run monetary policy target currently used by the Bank of Canada is to set _____
A) a target range for the exchange rate between the Canadian dollar and the US dollar.
B) the inflation rate.
C) a target range for the overnight lending rate.
D) $M2 = \text{real GDP} / M1$
E) a target range for the 5-year mortgage rate on residential dwellings.
- 28) The bank rate is the _____
A) primary method used by the Bank of Canada to control the money supply.
B) same as a margin requirement.
C) interest rate at which the Bank of Canada will lend funds to the Canadian government.
D) interest rate that commercial banks charge their best customers.
E) interest rate at which the Bank of Canada will lend funds to commercial banks whose reserves are temporarily below the required level.
- 29) If Bank Rates increases during an expansion of real GDP, then the Bank of Canada _____
A) must have been decreasing the money supply.
B) must have been increasing the money supply.
C) must have lowered the overnight lending rate.
D) may have changed the money supply in either direction.
E) must have held the money supply constant.

Macroeconomics Study Questions

- 30) The role that the money supply played in the Great Depression is viewed differently by Monetarists and Keynesians. Monetarists argue that 30) _____
- A) a massive expansion of the money supply was the reason why the Great Depression ended in the mid 1930s.
 - B) money in the US was not a contributor to the economic decline in Canada.
 - C) the Bank of Canada was correct in not providing emergency assistance to chartered banks at the time.
 - D) a massive reduction in the money supply was clearly the major cause of the fall in output and employment.
 - E) a reduction in autonomous expenditure which had little to do with the amount of money available was the major cause of the fall in output and employment.
- 31) To lower interest rates, the Bank of Canada could 31) _____
- A) buy securities.
 - B) decrease the commercial banks' reserves.
 - C) raise the treasury bill rate.
 - D) raise the reserve requirement.
 - E) decrease the money supply.
- 32) The growth of monetary aggregates such as *M1* can be a poor guide to the stance of monetary policy if 32) _____
- A) interest rates are changing rapidly.
 - B) interest rates are constant.
 - C) money demand is changing rapidly.
 - D) money demand is constant.
 - E) commercial bank reserves are rising.
- 33) In 1979–1980, the Bank of Canada, contracted the rate of growth of the money supply in an attempt to reduce inflation. One problem with this policy was that 33) _____
- A) an unexpected excess demand for money (*M1*) caused the policy to be more contractionary than necessary, leading to recession.
 - B) it proved completely ineffective in influencing either real GDP or the price level.
 - C) the demand for money dropped at the same time, causing the policy to be more expansionary than necessary, leading to further inflation.
 - D) an unexpected excess demand for money (*M1*) caused the policy to be more expansionary than necessary, leading to further inflation.
 - E) the demand for money dropped at the same time, causing the policy to be more expansionary than necessary, leading to recession.
- 34) Stable growth in the money supply rule will contribute to 34) _____
- A) increased ability for the Bank of Canada to "fine tune" the economy.
 - B) destabilization if the demand for money fluctuates.
 - C) stability of the price level.
 - D) inflation.
 - E) stable growth of national income.

Macroeconomics Study Questions

- 35) One reason why control of the supply of money for stabilization purposes might be difficult is because 35) _____
- A) the money demand function may be unstable.
 - B) firms may be sensitive to changes in the rate of interest.
 - C) the Canadian government requires long-term loans.
 - D) the Bank of Canada can print more money.
 - E) the commercial banks may choose not to hold excess reserves.
- 36) During a period of renewed inflation fears in 1988, the governor of the Bank of Canada, Mr. John Crow, announced that monetary policy would be more guided by 36) _____
- A) the goal of long term price stability.
 - B) exchange rate targets since depreciation of the Canadian dollar tends to be inflationary.
 - C) unemployment levels and the level of prices.
 - D) real GDP growth.
 - E) the level of real income growth and price stability.
- 37) If the unemployment rate is greater than NAIRU, 37) _____
- A) real national income will be above potential real national income.
 - B) there will be upward pressure on wages.
 - C) there will be an inflationary gap.
 - D) the AS curve will shift to the up.
 - E) there will be an output gap.

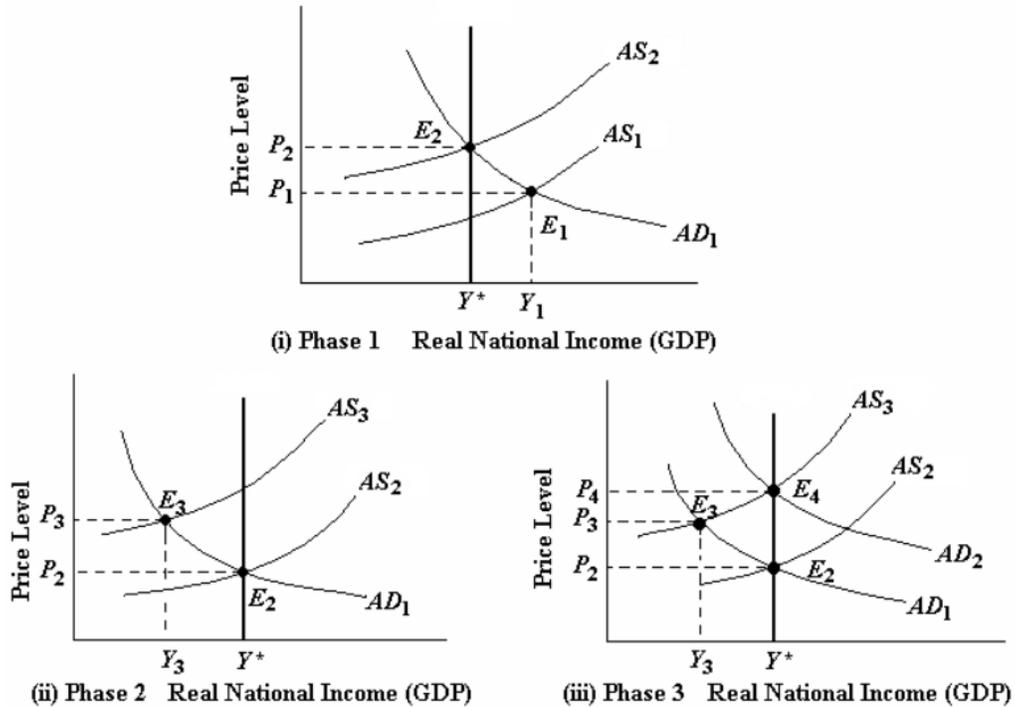


FIGURE 30-3

- 38) Referring to Figure 30-3 (i), the elimination of the inflationary gap is brought about by _____
- A) Bank of Canada stopping the expansion of money supply.
 - B) an increase in the productivity of workers.
 - C) the government engaging in tax cuts and increases in transfer payments.
 - D) workers accepting a reduction in their wages.
 - E) Bank of Canada engaging in an expansionary monetary policy.
- 39) It is difficult for Bank of Canada to remove a sustained inflation without producing stagflation because inflationary expectations cause the _____
- A) AS curve to continue shifting upward.
 - B) Y^* to shift to the right.
 - C) AD curve to shift too far to the left.
 - D) AD curve to shift too far to the right.
 - E) AS curve to continue shifting downward.
- 40) Assuming that the economy is currently in long run equilibrium at potential output (Y^*), A positive demand shock, that is not validated by the Bank of Canada, will eventually result in _____
- A) an ongoing inflation in the economy.
 - B) a higher price level and GDP at the potential level.
 - C) an ongoing deflation in the economy.
 - D) no change in the price level.
 - E) a lower price level and a GDP below the potential output.

Macroeconomics Study Questions

- 41) One of the results of the restrictive monetary policy adopted by the Bank of Canada of the early 1980s was that over the first half of the 1980s 41) _____
- A) inflation fell dramatically and real GDP remained at full employment levels.
 - B) inflation fell dramatically, but was accompanied by a major recession.
 - C) inflation remained over 10 percent and there was a major recession.
 - D) unemployment fell, but inflation accelerated due to higher interest rates.
 - E) inflation remained over 10 percent, but the Bank of Canada avoided a major recession.
- 42) Compared to rational expectations, backward-looking expectations adjust more _____ and are _____ prone to repetition of an expectational error. 42) _____
- A) quickly; more
 - B) slowly; less
 - C) quickly; less
 - D) slowly; more

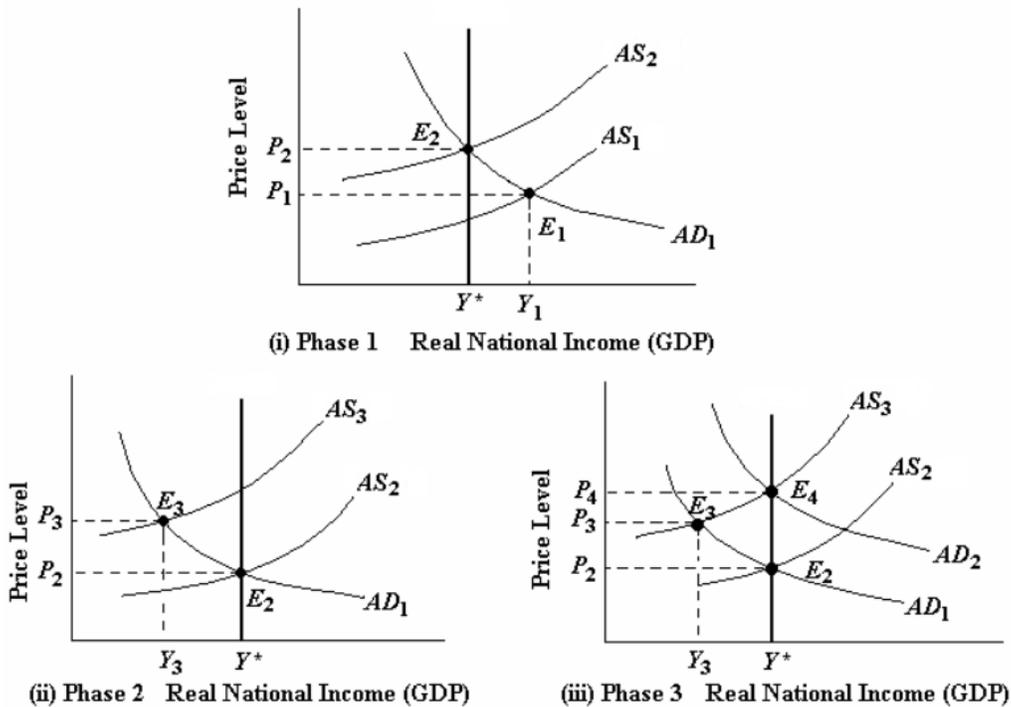


FIGURE 30-3

- 43) Referring to Figure 30-3 (iii), the movement of the economy from E_3 to E_4 is due to 43) _____
- A) an increase in the productivity of workers.
 - B) workers accepting a reduction in their wages.
 - C) Bank of Canada increasing the supply of money.
 - D) an increase in the unemployment rate.
 - E) inflationary expectations that cause wages to continue rising.

Macroeconomics Study Questions

- 44) Monetary validation 44) _____
- A) can perpetuate inflation.
 - B) causes a supply shock.
 - C) is not practiced by central banks in any industrialized countries.
 - D) increases unemployment.
 - E) acts to reduce inflation.
- 45) With sustained inflation 45) _____
- A) there is no effective set of monetary policy tools to reduce inflation.
 - B) the *AS* curve is likely to be shifting upward.
 - C) there is a tendency for the price of bonds to be increasing rapidly.
 - D) the *AD* curve is not shifting at all.
 - E) expected inflation tends to be significantly less than actual inflation.
- 46) Suppose that next year 300 000 existing jobs in the economy are eliminated and 200 000 new jobs are created. The unemployment rate will decline over that year if 46) _____
- A) more than 100 000 people drop out of the labour force.
 - B) more than 100 000 people join the labour force.
 - C) less than 100 000 people drop out of the labour force.
 - D) more than 300 000 people join the labour force.
 - E) less than 100 000 people join the labour force.
- 47) The normal turnover of labour and the usual time it takes to find a satisfactory job opening causes _____ unemployment to persist even at potential GDP. 47) _____
- A) frictional
 - B) involuntary
 - C) structural
 - D) actual unemployment greater than NAIRU
 - E) cyclical
- 48) In the case of frictional unemployment, 48) _____
- A) there is a mismatch between the needs of employers with job vacancies and the unemployed workers.
 - B) the only possible cure comes from shifting the aggregate demand curve to the left.
 - C) the unemployed workers and the employers with available job vacancies have not yet found each other.
 - D) there are no jobs for the unemployed people in the economy.
 - E) the only possible cure comes from shifting the aggregate demand curve to the right.

Macroeconomics Study Questions

- 49) Publicly subsidized education and retraining schemes are 49) _____
A) aimed at reducing cyclical unemployment.
B) aimed at reducing structural unemployment.
C) ways of resisting adjustment to technological change.
D) used to encourage employment in low-paying jobs.
E) used to encourage the use of efficiency-wages.
- 50) Which of the following would be the most appropriate policy for reducing *cyclical* unemployment? 50) _____
A) introduction of programs for the retraining and relocation of labour.
B) a decrease in the money supply.
C) an increase in the money supply.
D) increased benefits for workers covered by employment insurance.
E) a combination of tax cuts and increased government spending.
- 51) Full employment means that there exists 51) _____
A) an unemployment rate of less than 5 percent.
B) only involuntary unemployment.
C) only structural and/or frictional unemployment.
D) no job vacancies at the time.
E) a measured unemployment rate of zero.
- 52) The main cause of cyclical unemployment is that 52) _____
A) the *AD* curve shifts to the right.
B) some individuals skills do not have marketable skills for the jobs that do exist.
C) firms engage in race, gender and sex discrimination in their hiring practices.
D) workers often voluntarily quit a job to look for a better job.
E) the level of overall economic activity fluctuates.
- 53) One way that the Canadian economy can reduce its indebtedness to foreign creditors is to 53) _____
A) induce the government's budget deficit.
B) decrease private saving.
C) decrease its national saving rate.
D) increase public saving.
E) reduce taxes.
- 54) Some argue that the long-term burden of the debt arising from deficit-financing will 54) _____
A) cause a reduction in net exports and the employment if implies in an open economy.
B) reduce current investment and as a result reduce long-run economic growth.
C) cause a redistribution of resources away from future generations toward the current generation.
D) impose a burden on future generations who may have to pay interest to foreign owners of government bonds.
E) all of the above

Macroeconomics Study Questions

- 55) One way that the Canadian economy can reduce its indebtedness to foreign creditors is to 55) _____
- A) decrease private saving.
 - B) decrease its national saving rate.
 - C) reduce taxes.
 - D) induce the government's budget deficit.
 - E) increase public saving.
- 56) The difference between the government's debt and deficit is that the debt is the 56) _____
- A) amount owed by the Bank of Canada to the commercial banks whereas the deficit is the amount owed by the Government of Canada to the Bank of Canada.
 - B) accumulation of past deficits minus surpluses whereas the deficit is the annual shortfall between revenues and disbursements.
 - C) amount the government pays interest payments whereas the deficit has not yet incurred interest charges.
 - D) annual shortfall of revenues minus disbursements whereas the deficit is the accumulation of past debts .
 - E) amount payable to the Bank of Canada whereas the deficit is the annual shortfall of revenue minus disbursements.
- 57) A cyclically balanced budget, consistent with fiscal policy being stabilizing, means that the budget will 57) _____
- A) have deficits during inflationary periods.
 - B) be balanced every year.
 - C) have deficits during recessionary periods.
 - D) never have surpluses.
 - E) be balanced every four years.
- 58) It is argued that a government deficit, far from being a burden for future generations, may provide net benefits to future generations if the deficit is used to 58) _____
- A) ensure that all interest paid goes to non-residents outside the country.
 - B) earn a social rate of return less than the interest rate on the debt.
 - C) invest into the research and development that has long term potential wide use to raise factor productivity.
 - D) pay transfers such as welfare and old age pensions in the present period.
 - E) all of the above
- 59) Suppose that in Canada we experience a rise in the Canadian dollar price of foreign exchange. In this circumstance, the dollar will have _____ and the exchange rate will have _____. 59) _____
- A) appreciated; risen
 - B) depreciated; fallen
 - C) depreciated; risen
 - D) appreciated; fallen
 - E) appreciated; depreciated

Macroeconomics Study Questions

- 60) With respect to the balance of payments, 60) _____
A) if the current account is in surplus, the capital account must also be in surplus.
B) the current account balance must be zero.
C) if the current account is in deficit, the capital account must also be in deficit.
D) total payments must equal total receipts.
E) the trade account balance must be zero.
- 61) When a Japanese firm buys Canadian lumber, this appears as a 61) _____
A) credit on the Japanese balance-of-payments capital account.
B) as a debit on Canada's balance-of-payments and only as a credit on Japan's balance-of-payments
C) credit on the Canadian balance-of-payments current account.
D) credit on the Japanese balance-of-payments current account.
E) debit on the Canadian balance-of-payments capital account.
- 62) Under a system of flexible exchange rates, a nation which uses a tight money policy during a period of worldwide inflation would be likely to experience 62) _____
A) a loss in international reserves.
B) a fall in the value of its currency.
C) a surplus in its current account.
D) short-term capital outflows.
E) an appreciation of its currency.
- 63) Which of the following is true? A debit entry in the Canadian balance-of-payments accounts 63) _____
A) is a payment in the balance-of-payments accounts for foreign countries.
B) is any transaction that results in a payment to other nations.
C) occurs when Canadians receive investment income from foreign countries.
D) arises when Canadian assets are sold to foreigners.
E) typically results in less foreign exchange being held by foreigners.
- 64) "Foreign exchange" refers to 64) _____
A) the price at which purchases and sales of foreign goods take place.
B) the actual transaction that occurs as currencies are traded.
C) foreign currency or various claims on it.
D) the difference between exports and imports.
E) the movement of goods and services from one country to another.
- 65) Suppose that the excess reserves in Toronto Dominion Bank increase by \$700. Given a desired reserve ratio of 1.0 percent and no currency drains, the maximum change in demand deposits for the entire banking system would be 65) _____
A) \$682.50. B) \$70 000.00. C) \$700.00. D) \$17 500.00. E) \$28 000.00.

Macroeconomics Study Questions

- 66) When metal coins, such as gold and silver were used as money, a technique which made them easy to recognize and which did not reduce their value was 66) _____
- A) milling.
 - B) sweating.
 - C) debasement.
 - D) re-minting.
 - E) clipping.
- 67) If all the banks in the banking system collectively have \$20 million in cash reserves and have a desired reserve ratio of 20 percent, the maximum amount of demand deposits the banking system can support is 67) _____
- A) \$4 million.
 - B) \$40 million.
 - C) \$80 million.
 - D) \$100 million.
 - E) \$400 million.
- 68) Suppose the Bank of Canada purchased \$5 million worth of government securities in the open market. The desired reserve ratio of the chartered banks is 25 percent and the public's desire to hold cash is 5 percent of their total deposits. The money supply would 68) _____
- A) decrease by \$16.67 million.
 - B) increase by \$20 million.
 - C) increase by \$16.67 million.
 - D) decrease by \$ 8.33 million.
 - E) decrease by \$20 million.
- 69) One implication of an increase in the cash drain to the public is that the 69) _____
- A) amount of new money that can be created from a new source of reserves is increased.
 - B) desired reserve ratio is increased.
 - C) desired ratio is reduced.
 - D) banking system cannot create any additional money following a new deposit.
 - E) banking system's ability to create new money following a new deposit is reduced.
- 70) If the interest rate is 10 percent, an individual would be indifferent between receiving \$5.00 today or 70) _____
- A) \$4.00 one year from now.
 - B) \$4.50 one year from now.
 - C) \$5.00 one year from now.
 - D) \$5.50 one year from now.
 - E) \$6.00 one year form now.

Macroeconomics Study Questions

- 71) The formula for calculating the present value of a bond with a redemption value of R dollars, receivable in one year is 71) _____
- A) $PV = R(1+i)$
 - B) $PV = R/i$
 - C) $PV = i(R+i)$
 - D) $PV = R/(1+i)$
 - E) $PV = (1+i)/R$
- 72) In an open economy like Canada, an increase in the money supply leads to 72) _____
- A) an increase in the external value of the dollar, thereby stimulating net exports and raising aggregate demand.
 - B) an increase in the external value of the dollar, thereby inhibiting net exports and raising aggregate demand.
 - C) a reduction in the external value of the dollar, thereby stimulating net exports and raising aggregate demand.
 - D) an increase in the external value of the dollar, thereby stimulating net exports and reducing aggregate demand.
 - E) a reduction in the external value of the dollar, thereby inhibiting net exports and raising aggregate demand.
- 73) In an open economy like Canada, a decrease in the money supply leads to 73) _____
- A) an increase in the external value of the dollar, thereby stimulating net exports and raising aggregate demand.
 - B) a reduction in the external value of the dollar, thereby stimulating net exports and raising aggregate demand.
 - C) a reduction in the external value of the dollar, thereby inhibiting net exports and raising aggregate demand.
 - D) an increase in the external value of the dollar, thereby inhibiting net exports and reducing aggregate demand.
 - E) an increase in the external value of the dollar, thereby stimulating net exports and reducing aggregate demand.
- 74) If the Bank of Canada chooses a constant rate of growth in the money supply equal to the average long-run growth rate of real GDP as a policy variable, we can conclude that it is targeting 74) _____
- A) bond prices as a short run target.
 - B) the reserves of the commercial banks and is engaged in expansionary monetary policy.
 - C) the reserves of the commercial banks and is engaged in contractionary monetary policy.
 - D) the overnight lending rate as a short run target.
 - E) the core inflation rate as a long run target.

Macroeconomics Study Questions

- 75) A 2 percent per year rate of growth of the money supply would constitute an expansionary monetary policy 75) _____
- A) in no circumstances because this growth in the money supply is too small to effectively be considered expansionary.
 - B) if demand for money is increasing by more than 2 percent per year.
 - C) if demand for money is increasing by exactly 2 percent per year.
 - D) only if demand for money is decreasing.
 - E) if demand for money is growing by less than 2 percent per year.
- 76) The purchase of government securities by the Bank of Canada is predicted to 76) _____
- A) increase loans made by the banks.
 - B) decrease bank reserves.
 - C) increase the government deficit.
 - D) be an effective anti-inflationary policy.
 - E) decrease the price of bonds.
- 77) Expectational theories of inflation 77) _____
- A) suggest appropriate policy for eliminating expectational inflation is to increase aggregate demand.
 - B) are formed based only past experience.
 - C) explain that the AS curve can shift purely as a result of decision makers' expectations.
 - D) is an example of a purely monetary theory of inflation.
 - E) try to explain only single price shocks and are not concerned with continuous price inflation.
- 78) The reason why inflation can persist even after its original causes have been removed is that 78) _____
- A) workers are willing to accept wage increases lower than the increase in productivity.
 - B) the Bank of Canada increases money supply to match increases in real GDP.
 - C) workers expect wage increases to match increases in labour productivity.
 - D) governments embark on a deficit elimination program.
 - E) inflationary expectations cause AS to continue shifting upwards.
- 79) The statement that "Inflation is everywhere and always a monetary phenomenon" is associated with 79) _____
- A) J.M. Keynes.
 - B) Adam Smith.
 - C) Paul Martin.
 - D) Milton Friedman.
 - E) Alfred Marshall.

Macroeconomics Study Questions

- 80) The decrease in the share of the labour force that is unionized may _____ the speed of relative wage adjustments, which would put _____ pressure on NAIRU. 80) _____
- A) increase; upward
 - B) increase; downward
 - C) have no effect on; no
 - D) decrease; downward
 - E) decrease; upward
- 81) Which of the following would be the most appropriate policy for reducing *structural* unemployment? 81) _____
- A) an increase in the money supply
 - B) increased benefits for workers covered by employment insurance
 - C) a decrease in the money supply
 - D) introduction of programs for the retraining and relocation of labour
 - E) a combination of tax cuts and increased government spending
- 82) According to macroeconomic theory, other things constant, when there is an increase in real output it results in 82) _____
- A) an increase in structural unemployment.
 - B) a decrease in NAIRU.
 - C) a decrease in cyclical unemployment.
 - D) an increase in NAIRU.
 - E) an increase in frictional unemployment.
- 83) Tax revenues act as an automatic stabilizer because 83) _____
- A) they increase during economic booms and decrease during economic recessions.
 - B) they decrease during economic booms and decrease during economic recessions.
 - C) tax rates will automatically decrease to stimulate the economy during economic booms.
 - D) tax rates will automatically increase to stimulate the economy during economic recessions.
 - E) tax rates will automatically increase if the government is running deficits.
- 84) It is argued that government deficits may provide net benefits to future generations because 84) _____
- A) investments into infrastructure with a higher rate of return than the cost of borrowing money makes good business sense.
 - B) building an up-to-date infrastructure lowers costs for future generations.
 - C) spending on health care, education and similar things as a result of the deficit can be considered a socially responsible investment.
 - D) capital budgeting could be used to minimize undesirable redistributions of income between generations.
 - E) all of the above

- 85) An American in traveling to Canada converts U.S.\$100 into Canadian dollars, receiving Cdn.\$145. One month later he does the same thing and receives Cdn.\$140. There are no transactions costs. The Canadian exchange rate
- A) has neither risen nor fallen.
 - B) has risen.
 - C) indicates that Canada has lower inflation than the United States.
 - D) has fallen.
 - E) may have either risen or fallen; more information is required to determine the direction of movement with certainty.

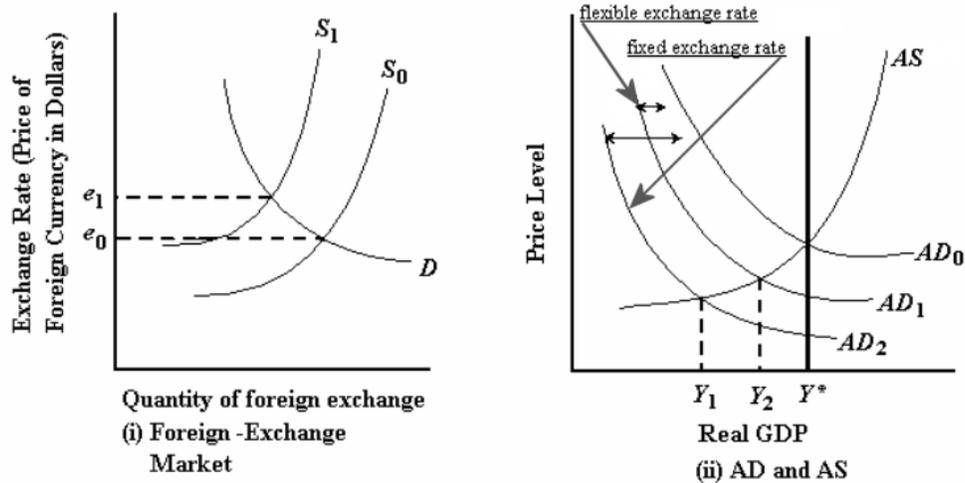


FIGURE 35-4

- 86) Referring to Figure 35-4, an increase in the world's demand for Canadian exports (assuming fixed exchange rates) will shift
- A) both the supply curve from (S_0 to S_1) and the aggregate demand curve from AD_0 to AD_2 .
 - B) both the supply curve from (S_1 to S_0) and the aggregate demand curve from AD_2 to AD_1 .
 - C) both the supply curve from (S_0 to S_1) and aggregate demand curve from AD_0 to AD_1 .
 - D) the aggregate demand curve to AD_1 only.
 - E) the aggregate demand curve to AD_2 only.
- 87) Gresham's law predicts that
- A) bad money drives good money out of circulation.
 - B) decreases in the money supply lead to a stable price level.
 - C) debased money will circulate with undebased money.
 - D) debased money will be driven from circulation.
 - E) money is neutral.

Macroeconomics Study Questions

- 88) Which of the following illustrates the use of fiat money performing one of the functions of money? 88) _____
- A) exchanging money market funds for insurance
 - B) exchanging goods for services
 - C) keeping gold as a hedge against inflation
 - D) exchanging money market funds for gold
 - E) exchanging Canadian dollars for a sweat-shirt
- 89) The real demand for money is 89) _____
- A) the nominal demand for money divided by the price level.
 - B) equal to the nominal demand for money as long as inflation is fully anticipated.
 - C) equal to the supply of money at all times.
 - D) the nominal demand for money multiplied by the price level.
 - E) equal to the amount of currency circulating in the economy.
- 90) The two major policy instruments of the Bank of Canada are 90) _____
- A) bank loans to commercial banks and open market operations.
 - B) the bank rate and the money supply.
 - C) open market operations and switching operations.
 - D) banks loans to commercial banks and the switching operations.
 - E) open market operations and the reserve requirement.
- 91) The acceleration hypothesis states that 91) _____
- A) if a recessionary gap is not closed, unemployment will tend to accelerate.
 - B) capital investment is the primary cause of inflation.
 - C) monetary accommodation causes inflation.
 - D) if an economy is growing, inflation will grow at an ever-increasing rate.
 - E) when the central bank holds an inflationary gap constant, inflation will tend to accelerate.
- 92) If there are more job vacancies than there are unemployed workers, then 92) _____
- A) fiscal policy aimed at increasing aggregate demand would cause the actual unemployment rate to move toward the natural unemployment rate.
 - B) there is excessive involuntary unemployment in this economy.
 - C) the actual unemployment rate is less than the natural rate of unemployment.
 - D) there is no structural unemployment in this economy.
 - E) the economy has a high natural rate of unemployment.
- 93) Suppose that in Year 2 there were lower tax revenues and a lower federal deficit than in Year 1. This could be explained by _____ in Year 2. 93) _____
- A) lower debt service charges
 - B) higher government expenditure
 - C) higher real GDP
 - D) lower real GDP
 - E) lower government expenditure

Macroeconomics Study Questions

- 94) Which one of the following transactions would appear as a debit in the current account of the Canadian balance of payments? 94) _____
- A) Canadian tourists in France purchase French francs.
 - B) Canadians receive dividends on U.S. investment in Latin America.
 - C) A Canadian subsidiary exports raw materials to its Dutch parent company.
 - D) The Bank of Canada purchases German marks to hold in its official reserves.
 - E) The Arabian Capital Investment Corporation makes a loan to a Canadian firm.
- 95) In the event of a sudden loss in confidence in the ability of the chartered banks to redeem deposits, the Bank of Canada would typically 95) _____
- A) offer to sell government bonds to the chartered banks.
 - B) lend reserves to the chartered banks.
 - C) impose severe financial penalties on the chartered banks by charging them interest at higher than the bank rate.
 - D) suspend operation of the banking system until the panic subsided.
 - E) take over the operation of any banks in severe difficulties.
- 96) If the economy is currently in monetary equilibrium, an increase in the money supply will 96) _____
- A) lead to a movement down the money demand curve to a lower rate of interest.
 - B) cause a reduction in the demand for money, leading to a higher rate of interest.
 - C) cause an increase in the demand for money, leading to a lower rate of interest.
 - D) not change the equilibrium conditions.
 - E) cause an excess demand for money and a decrease in the rate of interest.
- 97) If the Bank of Canada adopts a target for core inflation, it will have the greatest stabilizing effect on national income if 97) _____
- A) there are strong negative supply shocks.
 - B) the economy is in a recession with $Y^* >$ real GDP.
 - C) if aggregate supply is growing in a very stable and predictable pattern.
 - D) there are strong positive supply shocks.
 - E) if the economy has an inflationary gap ($\text{real GDP} > Y^*$).
- 98) The *forward-looking* theory of inflation suggests that an increase in the *expected* rate of inflation in the future can 98) _____
- A) create pressure for wages to fall.
 - B) often plays a role in accelerating the rate of inflation.
 - C) be a component in shortening the length of an inflation.
 - D) is a purely monetary cause of inflation.
 - E) vanishes whenever the government promises zero inflation.

Macroeconomics Study Questions

- 99) An example of hysteresis in a labour market is a group of new labour entrants to the labour market 99) _____
- A) facing a positive demand shock that produces a long term lower unemployment rate.
 - B) having difficulty finding jobs, as a result of more rapid technological change.
 - C) facing a temporary negative supply shock at the time of their entry.
 - D) facing a temporary positive supply shock at the time of their entry.
 - E) facing temporarily high unemployment rates due to a minor recession which then causes a decrease in unemployment as the economy recovers.
- 100) The answer to the question, "Do we get a meaningful statistic by dividing the national debt by the GDP?" is 100) _____
- A) No: We are essentially "dividing apples by oranges".
 - B) No: The GDP is not a meaningful measure of the well-being of the economy.
 - C) Yes: We can see how much of the national debt is owed by each individual citizen.
 - D) Yes: We can see the part of the year's GDP that has to be sacrificed every year to repay the national debt.
 - E) Yes: We can see the burden of the debt more clearly than using the national debt figure alone.

Answer Key

Testname: STUDY-LIPSEYCH27-35

- 1) C
- 2) A
- 3) A
- 4) D
- 5) E
- 6) B
- 7) B
- 8) C
- 9) A
- 10) C
- 11) A
- 12) B
- 13) E
- 14) E
- 15) E
- 16) A
- 17) A
- 18) B
- 19) D
- 20) B
- 21) E
- 22) A
- 23) C
- 24) B
- 25) A
- 26) E
- 27) C
- 28) E
- 29) D
- 30) D
- 31) A
- 32) C
- 33) A
- 34) B
- 35) A
- 36) A
- 37) E
- 38) A
- 39) A
- 40) B
- 41) B
- 42) D
- 43) C
- 44) A
- 45) B
- 46) A
- 47) A
- 48) C
- 49) B
- 50) E

Answer Key

Testname: STUDY-LIPSEYCH27-35

- 51) C
- 52) E
- 53) D
- 54) E
- 55) E
- 56) B
- 57) C
- 58) C
- 59) C
- 60) D
- 61) C
- 62) E
- 63) B
- 64) C
- 65) B
- 66) A
- 67) D
- 68) C
- 69) E
- 70) D
- 71) D
- 72) C
- 73) D
- 74) E
- 75) E
- 76) A
- 77) C
- 78) E
- 79) D
- 80) B
- 81) D
- 82) C
- 83) A
- 84) E
- 85) B
- 86) C
- 87) A
- 88) E
- 89) A
- 90) C
- 91) E
- 92) C
- 93) A
- 94) A
- 95) B
- 96) A
- 97) C
- 98) B
- 99) A
- 100) E