

Name:

Student # :

Section:

RYERSON UNIVERSITY
Department of Economics

ECN 204 (Section-7)
TERM TEST 1
October, 2004

Instructor: Sharif F. Khan

Time Limit: 50 minutes

Total Pages Including the Cover Sheet: 8

Instructions:

Important! Read the instructions carefully before you start your exam.

Mark your selections for **PART A** on the examination question booklet by circling the right choice in **PENCIL**. If you make changes, be sure to erase completely. Please record your name, student number, and your section of the course on the top of your examination question booklet.

Write your answers for **Part B** and **Part C** in the space provided on the exam question booklet.

Marking Scheme:

Part A [20 marks] TEN multiple-choice questions – 2 marks each

Part B [10 marks] ONE True/ False/Uncertain question.

Part C [20 marks] ONE problem solving question

Notes:

- If doubt exists as to the interpretation of any question, please include a clear statement of any assumptions made in your answer.
- You may use a calculator.
- You are NOT ALLOWED to use any textbooks, notes or other study materials.

Part A**Multiple-Choice Questions****[20 marks]**

*Each question is worth 2 marks. There is no negative marking for wrong answers.
To answer each question correctly, you have to choose (make a circle in PENCIL) the best answer from the given four choices.*

1. The following are national income account data for a hypothetical economy in billions of dollars: gross private domestic investment (\$320); imports (\$35); exports (\$22); personal consumption expenditures (\$2,460); and, government purchases (\$470). What is GDP in this economy?
 - A) \$3,250 billion
 - B) \$3,263 billion
 - C) \$3,237 billion
 - D) \$3,290 billion

Use the following to answer question 2:

All figures are in billions of dollars.

Personal taxes	\$40
Other earnings not paid out to persons	15
Indirect taxes less subsidies	20
Corporate income taxes	40
Government transfer payments	22
Canadian exports	24
Undistributed corporate profits	35
Government current purchases of goods and services	90
Gross investment	75
Canadian imports	17
Personal consumption expenditures	250
Net investment	50
Net investment income from nonresidents	-5

2. Refer to the above information. GNP is:
 - A) \$487.
 - B) \$467.
 - C) \$417.
 - D) \$402.

Use the following to answer question 3:

Only three goods are produced in an economy in the following amounts: A = 10, B = 30, C = 5.
The current year per unit prices of these three goods are A = \$2, B = \$3, and C = \$1.

3. Refer to the above information. Nominal GDP in the current year is:
- A) \$110.
 - B) \$115.
 - C) \$45.
 - D) \$90

4. Consider the following data for a nation:

Year	Nominal GDP (in billions)	Price index
1	\$35	90
2	40	100
3	45	110
4	48	120
5	56	140

The country's real GDP declined between years:

- A) 1 and 2.
 - B) 2 and 3.
 - C) 3 and 4.
 - D) 4 and 5.
5. Which would be the best economic measure to compare standards of living among nations over time?
- A) changes in labor productivity
 - B) changes in real domestic output
 - C) changes in real income per capita
 - D) changes in nominal income per capita

Use the following to answer question 6:

<u>Year</u>	<u>Alta</u> <u>(real GDP)</u>	<u>Zorn</u> <u>(real GDP)</u>	<u>Alta</u> <u>(population)</u>	<u>Zorn</u> <u>(population)</u>
1	\$2,000	\$150,000	200	500
2	2,100	152,000	202	505
3	2,200	154,000	210	508

6. Refer to the above table. Between years 1 and 2, real GDP per capita grew by _____ percent (approximate to the closest integer) in Alta:
- A) 3
 - B) 4
 - C) 5
 - D) 10
7. If the economy's real GDP doubles in 18 years, we can:
- A) not say anything about the average annual rate of growth.
 - B) conclude that its average annual rate of growth is about 5.5 percent.
 - C) conclude that its average annual rate of growth is about 2 percent.
 - D) conclude that its average annual rate of growth is about 4 percent.
8. The phase of the business cycle in which real domestic output declines is called:
- A) the peak.
 - B) a recovery.
 - C) a recession.
 - D) the trough.
9. If the unemployment rate is 9 percent and the natural rate of unemployment is 7.5 percent, then the:
- A) frictional unemployment rate is 7.5 percent.
 - B) cyclical unemployment rate and the frictional unemployment rate together are 7.5 percent.
 - C) cyclical unemployment rate is 1.5 percent.
 - D) natural rate of unemployment will eventually increase.

10. You are given the following information about the economy: (1) nominal interest = 8 percent; (2) real rate of interest = 6 percent. The inflation premium is:
- A) 2 percent.
 - B) 6 percent.
 - C) 8 percent.
 - D) 14 percent.

Part B **True/False/Uncertain Questions** **[10 marks]**

Each question is worth 10 marks.

Explain why the following statement is True, False, or Uncertain according to economic principles. Use diagrams and / or numerical examples where appropriate. Unsupported answers will receive no marks. It is the explanation that is important.

B1. At the full employment level of output, the unemployment rate is zero percent.

Part C**Problem Solving Question****[20 marks]**

Answer all parts of the following question.

C-1

Assume that the consumption schedule for a private closed economy is such that consumption $C = 60 + 0.75Y$, where Y is the level of real GDP. Assume further that planned gross investment (I_g) is independent of the level of real GDP and constant at $I_g = 40$.

- a. Plot the consumption, investment and aggregate expenditure schedules. Show the equilibrium point and the equilibrium level of real GDP in the graph. [5 marks]
- b. Calculate the equilibrium level of income for this economy. [10 marks]
- b. What will happen to equilibrium Y if I_g changes to 60? Find the new equilibrium level of real GDP and show it in the graph. [5 marks]

