

Multiple Choice Questions (2 marks each)

1. The single most important reason for Canada's seeking a free trade agreement with the United States was to

- a. harmonize its environmental laws with the United States.
- b. avoid international outsourcing in low wage countries.
- c. ensure the continuation of its social programs.
- d. ensure its access to the U.S. market.

2. An increase in the expected rate of inflation will _____ the expected return on bonds relative to that on _____ assets, everything else held constant.

- a. raise; real
- b. reduce; financial
- c. reduce; real
- d. raise; financial

3. Overnight funds are

- a. loans made by the Bank of Canada to banks
- b. loans made by bank to the Bank of Canada
- c. loans made by the bank to each other.
- d. funds raised by the federal government in the bond market.

4. The remedies for the adverse selection include all of the following but

- a. government regulation.
- b. financial intermediation.
- c. private production and sale of information.
- d. free-riding.

5. _____ in the money supply creates excess _____ money, causing interest rate to _____, everything else held constant.

- a. A decrease; demand for; rise
- b. A decrease; supply for; fall
- c. An increase; supply for; rise
- d. An increase; demand for; fall

6. A problem for equity contracts is a particular type of _____ called the _____ problem.

- a. adverse selection; principal-agent
- b. moral hazard; principal-agent
- c. adverse selection; free-rider
- d. moral hazard; free-rider

7. The market supply function is $P=36+0.02Q$ and the market demand function is $P=71-0.05W$, what is the change in consumer surplus associated with a minimum floor price \$55?

- a. -\$2,310.

- b. -\$2,740.
- c. -\$3,250.
- d. -\$3,650.

8. Use the following information to answer Question 9 and 10:

Population	Employed	Unemployed	Retired	Under Age 15
35 million	19 million	2.15 million	4.25 million	6.75 million

9. The unemployment rate is

- a. 84%
- b. 9.3%
- c. 10.2%
- d. 11.6%

10. The labor force participation rate is

- a. 79.8%
- b. 80.6%
- c. 81.9%
- d. 82.7%

11. Which of the following can be described as direct finance?

- a. You buy shares of common stock in the secondary market.
- b. You borrow \$2,500 from a friend.
- c. You take out a mortgage from your local bank.
- d. You buy shares in a mutual fund.

12. The one year interest rate is 2.25% in Canada and 4.95% in France. The spot exchange rate of the euro is C\$1,4321/€. If the interest rate parity condition holds, the one-year forward exchange rate of the euro would be

- a. C\$1,3774/€
- b. C\$1,3821/€
- c. C\$1,3953/€
- d. C\$1,4087/€

13. A welfare program offers \$4,000 of benefits to those not working. For those working, it reduces benefits dollar for dollar until there are no benefits to be paid. The program is then modified so that for every dollar earned, benefits are only reduced by 50 cents. Mr. X earned \$6,000 under the old program. What will be the effect of the new program (nothing that he is in the range to receive benefits)

- a. Both his income and substitution effect will increase his desired hours of work.
- b. Both his income and substitution effect will decrease his desired hours of work.
- c. His income effect will increase his desired hours of work, but his substitution effect will decrease his desired hours of work.
- d. His income effect will decrease his desired hours of work, but his substitution effect will decrease his desired hours of work.

14. The cross price elasticity between a pair of complementary goods will be
- zero.
 - positive.
 - negative.
 - positive or zero depending upon the strength of the relationship.
15. In a business cycle expansion, the _____ of bonds increases and the _____ curve shifts _____ as business investments are expected to be more profitable.
- demand; demand; left
 - demand; demand; right
 - supply; supply; left
 - supply; supply; right
16. A country possesses a comparative advantage in the production of a product if
- it possesses an absolute advantage in the production of his good compared to its trading partners.
 - it is able to produce less of this good per worker than its trading partners.
 - it can produce more of this good per hour than its trading partners.
 - the opportunity cost, in terms of the amount of other products that it gives up to produce this product, is lower than it is trading partners.
17. Although the airline industry has only a relatively small number of sellers, the market is nevertheless highly competitive. The reason is that
- the number of buyers is very large.
 - due to fierce competition, no firm has significant control over the quantity supplied.
 - due to fierce competition, no firm has significant control over prices.
 - most airline routes are served by relatively many sellers.
18. Suppose that the nominal exchange rate between the U.S. dollar and the Mexican peso is 0.10 dollar per peso. If Mexico's inflation is 10 percent and the United States' inflation is 0 percent, from the U.S. point of view, the real exchange rate
- depreciates to 0.11 dollars per peso.
 - appreciates to 0.11 dollars per peso.
 - depreciates to 0.09 dollars per peso.
 - appreciates to 0.09 dollars per peso.
19. If a worker's desired hours of labour do not change after a decrease in his wage rate, then
- his income and substitution effects are small in absolute value.
 - his income effect dominates his substitution effect.
 - his substitution effect dominates his income effect.
 - his income and substitution effects are of equal magnitude.

20. The Trade to GDP ratio for a nation that had \$6,350 million in exports, \$5,340 million in imports, and GDP of \$16,690 million would be:

- a. 0.62.
- b. 0.66.
- c. 0.70.
- d. 0.74.

21. For two substitutes in production, if the scale effect dominates,

- a. then the inputs could be either gross complements or gross substitutes.
- b. then the inputs cannot be used at the same time.
- c. then the inputs are gross substitutes.
- d. then the inputs are gross complements.

22. According to the liquidity premium theory of the term structure,

- a. if yield curves are downward sloping, then short interest rates are expected to fall by so much that, even when the positive term premium is added, long-term rates fall below short-term rates.
- b. yield curves should never slope downward.
- c. bonds of different maturities are not substitutes.
- d. interest rates on bonds of different maturities do not move together over time.

23. When the price of labour falls, the quantity of _____ demanded will _____, but effect on _____ is

- a. labour; decrease; capital
- b. labour; increase; capital
- c. capital; increase; labour;
- d. capital; decrease; labour

24. The _____ interest rate is adjusted for expected changes in the price level.

- a. ex post nominal
- b. ex ante nominal
- c. ex post real
- d. ex ante real

25. The economic philosophy that favors strict limits on imports and strong support for exports is called

- a. autarky.
- b. mercantilism.
- c. zero sum.
- d. comparative advantage.