

26. If the probability of a bond default increases because corporations begin to suffer large losses, then the default risk on corporate bonds will \_\_\_\_\_ and the expected return on these bonds will \_\_\_\_\_ everything else held constant.

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

27. The price of a coupon bond and the yield to maturity are \_\_\_\_\_ related; that is, as the yield to maturity \_\_\_\_\_, the price of the bond \_\_\_\_\_.

- a. negatively; rises; falls
- b. positively; rises; rises
- c. negatively; falls; falls
- d. positively; rises; falls

28. Most of a payroll tax is eventually paid by

- a. workers if the supply of labour curve is very inelastic.
- b. workers if the supply of labour curve is very elastic.
- c. employers if the labour demand curve is very elastic.
- d. employers if the supply of labour curve is very inelastic.

29. What is the welfare impact of a subsidy policy?

- a. Producer and consumer surplus increase, and these gains are larger than the government cost.
- b. Producer and consumer surplus increase, and these gains are smaller than the government cost.
- c. Producer surplus declines, consumer surplus increases, and total welfare increases.
- d. Producer surplus increases, consumer surplus increases, and total welfare declines.

30. Suppose that the average hourly wage rate was \$7.50 in 1984 and \$18.20 in 2014. Further suppose that the Consumer Price Index was 60.6 in 1984 and 126.4 in 2014. Based on the information given the purchasing power of Canadian worker earnings has increased over the last 30 years by

- a. 12.5%
- b. 14.1%
- c. 16.3%
- d. 18.9%

31. The **opportunity cost** of an hour of leisure is:

- A. The money you must pay for an hour of leisure.
- B. The dollar value gained from an hour of leisure.
- C. The opportunity cost of foregone consumption.
- D. The wage rate of an individual

32. Which one of the following is incorrect about **Individual Consumption Curve**?
- A. The marginal utility of leisure is high when leisure hours are low and the marginal utility of income is low.
  - B. Higher indifference curves are preferred to lower ones.
  - C. Indifference curves are always concave to denote the relationship between the marginal utilities of income and leisure.
  - D. Indifference curves are usually downward sloping but might change based on individual preferences and individual utility.
  - E. A flat indifference curve means the individual values an extra unit of leisure time very little.

33. Overnight funds are
- a. loans made by the Bank of Canada to banks.
  - b. loans made by banks to each other.
  - c. loans made by banks to the Bank of Canada.
  - d. funds raised by the federal government in the money market.

Use the following information to answer Questions 2 and 3:

Labour force participation rate	Employment level	Unemployment rate
82.8%	1,604,700	8.8%

34. What is the unemployment level in this economy?
- a. 143,339
  - b. 154,839.
  - c. 162,591.
  - d. Cannot be determined.
35. What is the working age population in this economy?
- a. 2,125,048.
  - b. 2,304,160.
  - c. 2,548,162.
  - d. Cannot be determined.
36. Every financial market has which of the following characteristics?
- a. It determines the level interest rates.
  - b. It channels funds from lenders-savers to borrowers-spenders.
  - c. It allows common stock be traded.
  - d. It allows loans to be made.

37. Suppose a government is considering a legislation that would require all dentists to devote 10 percent of their work time to the poor, free of charge, to ensure that dental services are provided to the poor. What are the likely effects of the legislation on the hours of work among dentists?

- a. It reduces dentists' wages, creating income and substitution effects that work in same direction on their desired labour supply.
- b. It reduces dentists' wages, creating income and substitution effects that work in opposite directions on their desired labour supply,
- c. It increases dentists' wages, creating income and substitution effects that work in opposite directions on their desired labour supply.
- d. It increases dentists, wages, creating income and substitution effects that work in same direction on their desired labour supply.

38. Over the "backward-bending" portion of an individual labour supply curve

- a. there is no income effect.
- b. the substitution effect is zero, by definition
- c. the substitution effect outweigh income effect
- d. the income effect outweigh substitution effect

40. When unemployment is widespread and the wage is above its market clearing level, a cut in employee payroll tax will

- a. drive up wages but have little to no effect on employment and unemployment.
- b. increase employment, reduce unemployment and have little to no effect on wages.
- c. benefit employers and have no effect on workers.
- d. be largely ineffective.

41. An increase in the riskiness of corporate bonds will \_\_\_\_\_ the yield on corporate bonds and \_\_\_\_\_ the yield on government bond, everything else held constant.

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

42. Suppose the demand for gourmet coffee can be represented by a linear demand curve. At the prevailing market price the income elasticity of demand for gourmet coffee is 2.

- When income decreases the demand curve for gourmet coffee
- a. becomes more elastic at the price that prevailed before the change in income.
  - b. becomes less elastic at the price that prevailed before the change in income.
  - c. becomes less elastic at every price.
  - d. becomes more elastic at every price.

43. If the Bank of Canada increases interest rates, it will cause.

- a. a decrease in the supply of foreign exchange.
- b. an increase in the demand of foreign exchange.
- c. a decrease in the demand of foreign exchange and an increase in the supply of foreign

exchange.

d. an increase in the demand of foreign exchange and a decrease in the supply of foreign exchange.

Use the following information to answer Questions 13 and 14:

Suppose that one year nominal interest rate is 7.2% in Italy and 3.8% in Canada. The current exchange rate is CAD 1.44= EURO 1.

44. According to the interest rate parity condition, what is the expected exchange rate (Canadian dollars per Euro) in one year?

- a. 1.2975.
- b. 1.3248.
- c. 1.3556.
- d. 1.3943.

45. Suppose a change in expectations regarding future Canadian inflation cause the Canadian nominal interest rate to change. As a result, the forward exchange rate became CAD 1.40=EURO 1. If nothing else changes, what is the new Canadian one year nominal interest rate?

- a. 3.37%
- b. 3.69%
- c. 4.22%
- d. 4.80%

46. Large, well-established corporations have access to securities markets

- a. can be explained by the problem of moral hazard.
- b. can be explained by government regulations that prohibit small firms from acquiring funds securities markets.
- c. explained why newer and smaller corporations rely so heavily on the new issues market for financing
- d. explained why indirect finance is such an important source of external financing for business.

47. In order to protect against foreign exchange rate risk, firms can use

- a. the forward market for foreign exchange.
- b. the spot market for foreign exchange.
- c. interest rate arbitrage.
- d. purchasing power parity.

48. If the interest rates on all bonds fall from 6 to 5 percent over the course of the year, which bond would prefer to have been holding?

- a. A bond with twenty years to maturity.
- b. A bond with ten years to maturity.
- c. A bond with five years to maturity.
- d. A bond with one year to maturity.