

Instructions:

- (1) Assignment is worth 63 marks. The weighting for each question is based on the difficulty and depth of the question. Marks will be rewarded on the quality of the answer. The weighting does not necessarily signify how many points are required. For example a 5-point question may not need 5 points (it may require less or more).
- (2) You should be able to answer each question within approximately half page to a page.
- (3) Please type all answers; however, you may hand draw any diagrams. If the drawings are illegible you will receive no marks (make sure you use a ruler and I can read your writing).
- (4) Staple your assignment – paper clips or not stapled will not be accepted
- (5) State assumptions if necessary
- (6) Assignment is due October 19 at the beginning of class**
- (7) Late assignments will not be accepted unless there extenuating circumstances – please email if to discuss any issues prior to the due date.**

Question 1: Under what conditions might government intervention in an economy improve the market outcome? Give an example of why and how the government may intervene? (10 Marks)

Question 2: Suppose that the residents of vegpia spend all of their income on cauliflower, broccoli and carrots. In 2009 they buy 100 heads of cauliflower for \$ 200, 50 bunches of broccoli for \$ 75 and 500 carrots for \$ 50. In 2010 they buy 75 heads of cauliflower for \$ 225, 80 bunches of broccoli for \$ 120 and 500 carrots for \$ 100. If the base year is 2009 what is the CPI in both years? What is the inflation rate in 2010? (10 marks)

Question 3: Describe three problems that make the consumer price index an imperfect measure of cost of living. (6 marks)

Question 4: Referring to Statistics Canada's web site. Open <http://www.statcan.gc.ca/start-debut-eng.html> and look for Economic Account, then open the link "Gross Domestic Product" page. Open "Summary Tables," then open the table "Real Gross Domestic Product, Expenditure-Based, by Province and Territory." Answer the following questions based on this table. (15 marks)

- a. Which three provinces had the greatest real GDP per capita in 2008?
- b. Calculate the shares of each of these provinces in Canada's real GDP in 2008.
- c. Now, look for another table (you can use the "Search" function), "Consumer price index, historical summary, by province or territory." In which province was the consumer price index the highest in each of the years 2006 to 2009? Can you think of an explanation for that?

Question 5: Consider a closed economy. Use the supply and demand for loanable funds model to predict the effects of the following events on interest rates and investment. (12 marks) Label graph completely for full marks.

- a. The government introduces a tax credit for savings accounts of up to \$5000 per year.
- b. The government introduces a tax credit for savings accounts of up to \$5000 per year, and at the same time it repeals an investment tax exemption provision.
- c. The government raises the tax rates.
- d. The government issues bonds worth \$10 billion.

Question 6: In order to support the Canadian dollar, suppose the Bank of Canada buys an amount of Euros from some major commercial Canadian banks (a type of operation the Bank of Canada rarely undertakes). (10 marks)

- a. What is the immediate and the longer-term impact of this operation on the money supply?
- b. If the Bank of Canada does not wish that the currency swap influence the money supply, what does it have to do?