Practice questions for the first mid-term

1) Securitization
A) increases the cost of financing mortgages
B) allows loan originators to shift default risk to others
C) creates a security with low return but high risk
D) none of the above

2) A financial institution has $5 in capital and a debt of $45. It gives out $50 in loans. Its leverage is:
A) 5
B) 10
C) 15
D) 20

3)) Which of the following is true of the historical performance of the Canadian economy?
A) real GDP per capita is ten times greater now than in 1900.
B) since 1980 there have been many episodes of falling prices
C) from 1950 to the 2000 there was a gradual downward trend in unemployment
D) since 2005 the inflation rate exceeded 3% in every year

4) A financial institution wants to maintain a leverage of 5. How many dollars should it borrow for each dollar of its own capital?
A) 3
B) 4
C) 5
D) 6

5) Which channel did not contribute to the transmission of the recession in 2008-2009?
A) financial markets
B) international trade and interconnected supply chains
C) effect on consumer attitudes
D) the international oil market

6) The rate of inflation in Canada
A) was highest during the Great Recession
B) was highest during the Great Depression
C) Was high in 1970s
D) Has been increasing every year since 2005

7) The unemployment rate in Canada
A) Has always been higher than in the US
B) Has always been lower than in the US
C) Is about 1% higher than at the beginning of the Great Recession
D) Is now lower than at any time since 2005

8) Which of the following is **NOT** included in the calculation of Canada's NNP?
A) Services such as university teaching that are not sold in the market
B) depreciation
C) the salary of a Canadian hockey player on a US team
D) change in inventories

9) A bakery buys flower for $1, makes bread for $2 which is sold in the store for $3. As a result GDP increases by _____ and the value of intermediate goods produced in the economy is _____

A) $1, $5
B) $2,$4
C) $3,$3
D) $6,$0

10) National income = GNP
A) minus net income of foreigners
B) minus net income of foreigners in Canada minus depreciation
C) minus depreciation minus indirect business taxes
D) minus indirect business taxes

11) National income equals GDP
A) minus net income of foreigners in Canada
B) minus net income of foreigners in Canada minus depreciation
C) minus net income of foreigners in Canada minus depreciation minus indirect business taxes
D) minus net income of foreigners in Canada minus depreciation plus indirect business taxes

12) The average propensity to consume is equal to the
A) ratio of consumption to income.
B) amount consumed out of an additional dollar of income.
C) amount available for consumption after precautionary saving.
D) ratio of consumption to wealth.

13) John Maynard Keynes believed that the average propensity to consume:
A) was constant.
B) increased as income increased.
C) decreased as income increased.
D) was less than the marginal propensity to consume.

14) According to Modigliani's life-cycle hypothesis, the consumption function shifts upward as _____ increases.
A) income
B) wealth
C) the marginal propensity to consume out of income
D) the number of years until retirement

15) Milton Friedman argued that, on average, consumption is:
A) proportional to income.
B) a fraction of permanent income that rises as permanent income rises.
C) a fraction of permanent income that falls as permanent income falls.
D) proportional to permanent income.

16) A car producer expects problems with a supplier of tires. It therefore builds up a large inventory of tires. This example is most consistent with which of the following explanations for holding inventories?
A) production smoothing
B) inventories as factors of production
C) stock-out avoidance
D) work in progress

17) If the nominal interest rate is 3% and the rate of inflation is 4% then the real interest rate is, using the exact formula:
A) 7.12%
B) 7%
C) 0.97%
D) – 0.96%

18) The investment spending component of GDP includes:
A) investment in stocks and bonds
B) the purchase of second hand machinery
C) renovation of an existing plant
D) none of the above

19) Other things being equal, the neoclassical model of investment predicts that net investment will increase when the:
A) marginal product of capital falls.
B) price of new capital goods rises.
C) real interest rate falls.
D) depreciation rate rises.

20) Net investment is the:
A) business fixed investment minus inventory investment.
B) change in the stock of capital.
C) gross investment minus the rate of inflation.
D) gross investment plus the replacement of depreciated capital.

21) Economists use the term money to refer to:
A) income.
B) profits.
C) assets used for transactions.
D) earnings from labour.

22) The inconvenience associated with reducing money holdings to avoid the inflation tax is called:
A) menu costs.
B) shoeleather costs.
C) variable start-up costs.
D) fixed costs.

23) If the real interest rate declines by 1 percent and the inflation rate increases by 2 percent, the nominal interest rate must:
A) increase by 2 percent.
B) increase by 1 percent.
C) remain constant.
D) decrease by 1 percent.

24) The percentage change in P is approximately equal to the percentage change in:
A) M.
B) M minus percentage change in Y.
C) M minus percentage change in Y plus the percentage change in velocity.
D) M minus percentage change in Y minus the percentage change in velocity.

25) There are 500 transactions in a year and the average value of each transaction is $20. The transactions velocity of money is 5. Then the amount of money in the economy is:
A) $10000
B) $2000
C) $1000
D) $125