

**SIR ARTHUR LEWIS COMMUNITY COLLEGE
DIVISION OF TECHNICAL EDUCATION AND MANAGEMENT STUDIES**

EXAMINATION SESSION : May, 2001 Final Examination #M9

TUTORS : Ms L Phillips, Mrs F Beerom-Henry,
Mr S Auguste, Ms Persad

PROGRAMME TITLE : Business Studies – Applied Arts, Diploma
Management Studies – Applied Arts

PROGRAMME CODE : ABS 343, BUS 351, MAN 327

COURSE TITLE : Introduction to Macroeconomics – Paper I

COURSE CODE : MAC 311

CLASS(ES) : Year 1

DATE : Wednesday 9 May, 2001

TIME : 1.00 – 2.15 p.m.

DURATION : 1 hr 15 mins

ROOM(S) : OTW R.6, TRT R.3

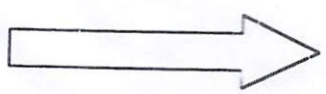
INVILGILATOR(S) : Ms L Phillips, Mrs S Finisterre,
Mrs F Beerom-Henry,
Mrs L McVane Simmons, Mr M St Paul



INSTRUCTIONS

1. There are fifty (50) multiple choice items contained in this paper.
2. Choose the letter **a, b, c or d** that carries the correct response and **shade** it on the answer sheet provided.
3. Borrowing or lending is prohibited.

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MULTIPLE CHOICE

Instruction: There are fifty (50) multiple choice items in this paper. Shade the letter **a, b, c, or d** which carries the correct response and **shade** it on the answer sheet provided.

1. Macroeconomics is concerned with aggregate flows within the entire economy whereas microeconomics might study how:
 - a) price is determined in a single market
 - b) resources are allocated across markets
 - c) total employment in the automobile industry changes in response to government policies
 - d) all of the above
2. The circular flow of income refers to :
 - a) the flow of goods and services from sellers to buyers
 - b) the flow of money in and out of the banking system
 - c) the flow of money income from buyers to sellers
 - d) both (a) and (c) are correct

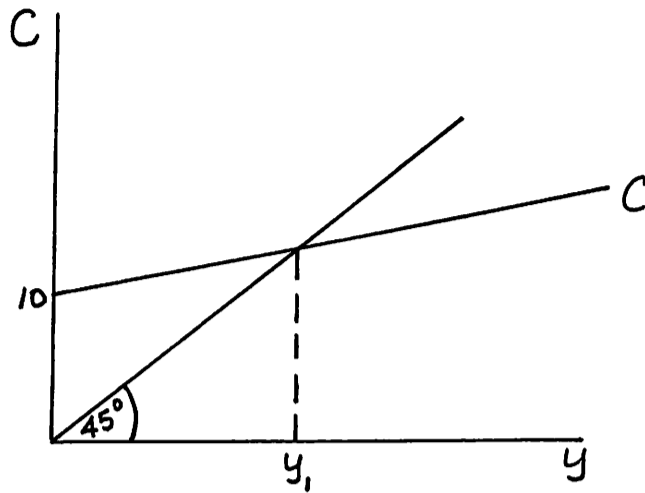
Refer to the following data to answer items (3) and (4)

	\$
Purchases of goods and services by St. Lucian households	800
Savings	100
Government purchases	200
Investment	150
Imports	75
Taxes	225
Exports	50

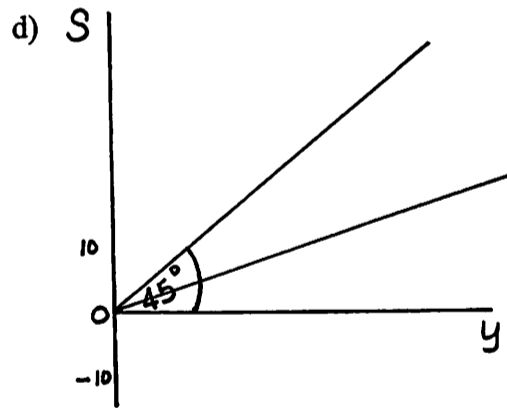
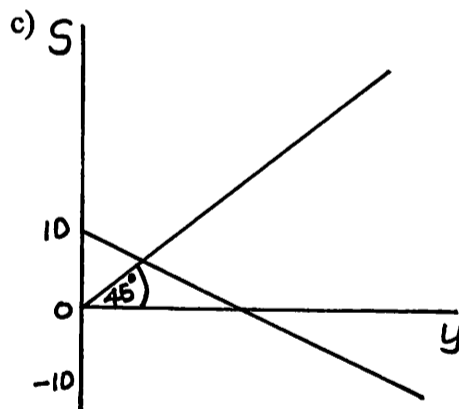
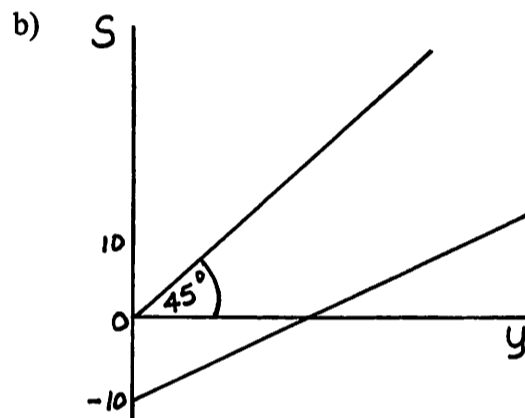
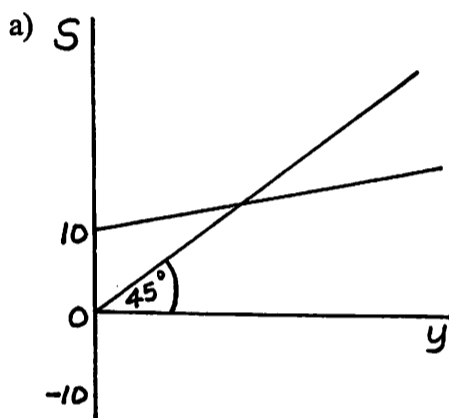
3. According to the above data, total injections are:
 - a) \$1,000
 - b) \$1,050
 - c) \$350
 - d) \$400
4. According to the above data, total leakages equal:
 - a) \$400
 - b) \$225
 - c) 300
 - d) \$125
5. If nominal GDP is \$150 and real GDP is \$125, the value of the implicit deflator is:
 - a) 120
 - b) 125
 - c) 0.83
 - d) 8.3
6. Which of the following would NOT be included in the measurement of GDP from using the income method?
 - a) Capital consumption allowance
 - b) Consumption expenditures
 - c) Indirect business taxes net of subsidies
 - d) Wages and salaries
7. Using the expenditure method, GDP equals:
 - a) $C + I + G + (X - M)$
 - b) $C + I + G - T + (X - M)$
 - c) $C + I + G - X + M$
 - d) None of the above
8. In a simple economy, if the marginal propensity to save out of disposable income is 0.25, the marginal propensity to consume is:
 - a) 0.25
 - b) 4.0
 - c) 1.0
 - d) 0.75

9. In a macromodel that includes consumption and investment, equilibrium real national income is attained when
- actual real output is equal to desired real aggregate expenditure
 - the aggregate expenditure function intersects the 45° line
 - the average propensity of desired spending is unity
 - all of the above
10. At a level of national income where aggregate desired expenditure falls short of total output, there will be a tendency for
- national income to rise
 - national income to fall
 - prices to rise
 - none of the above
11. National income is likely to increase as the result of increases in all but **which** of the following, assuming other autonomous variables remain constant?
- the tax rate
 - government purchases
 - net exports
 - autonomous consumption
12. If the rate of interest did not equate saving and investment and total output was greater than total spending the classical economists argued, competition would tend to force:
- product and resource prices down
 - product prices up and resource prices down
 - product prices up and resource prices up
 - product prices down and resource prices up
13. When a calculation of national income is made, transfer payments, are excluded. Which of the following would fall under this heading?
- unemployment benefits
 - winnings on the lotto
 - redundancy payments
 - interest on public authority debts
- I only
 - I and II only
 - I and III only
 - I, II, III, IV
14. The national income accounts for country X show that for a particular year, gross national income was \$24,900 million and gross domestic product was \$24,500 million. The difference of \$400 million in the accounts is the sum of:
- expenditure taxes, less subsidies
 - investment at market prices
 - net payments
 - net income from abroad
15. In a closed economy where there is an equilibrium level of income and saving is equal to investment, government spending must be:
- greater than receipts from taxation
 - equal to receipts from taxation
 - less than receipts from taxation
 - equal to investment
16. The marginal propensity to consume is said to be diminishing when:
- as income increases, the amount of income consumed is diminishing
 - a part of any increase in income is not spent on consumer goods
 - as income increases, the average amount spent on consumer goods diminishes
 - as income increases, the proportion consumed of any increase in income falls

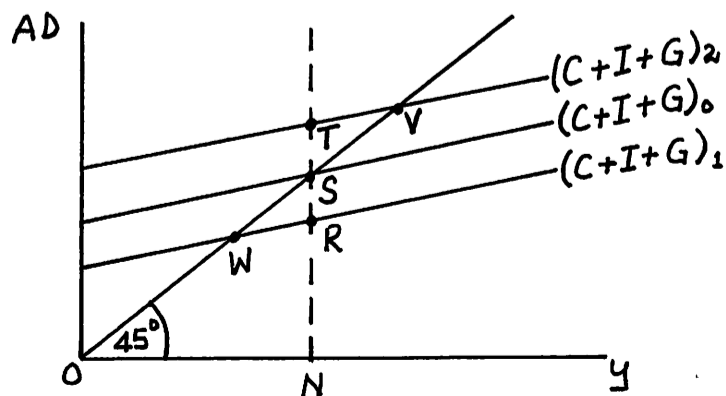
17. The diagram below represents a consumption function for a closed economy with no government.



Which one of the following diagrams represents the equivalent savings (S) function.



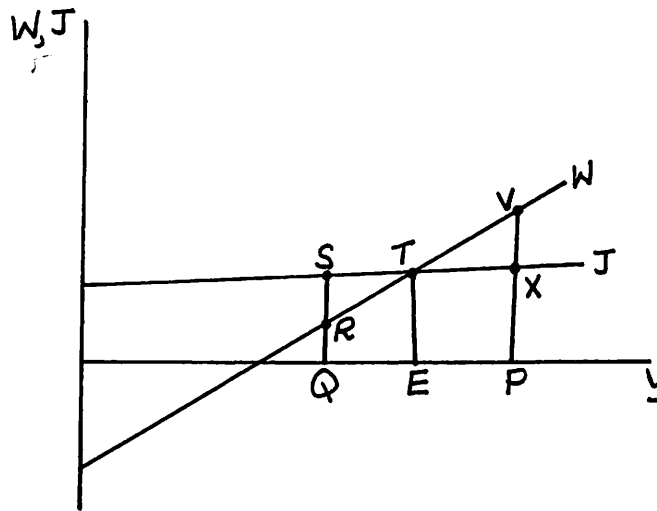
18. In the graph below, ON is the full employment level of income. $(C+I+G)_0$, $(C+I+G)_1$ and $(C+I+G)_2$ represent different aggregate demand functions:



Which of the following represents the inflationary gap if the aggregate demand function is $(C+I+G)_2$?

- a) RN b) SR c) TS d) WS

19. The diagram below shows injections (J) and withdrawals (W) in an economy.



If the full employment level of national income is OP the deflationary gap is shown by:

- a) XP b) TE c) RS d) VX

20. In the following C = consumption, S = saving, Y = income and s is the marginal propensity to save. In a closed economy with no government, and where investment is given the saving function is $S = sy - 100$. If the multiplier is 5, it may be inferred that:

- a) $S = 0.8y - 100$
 b) $S = 0.2y - 20$
 c) $C = 20 + 0.8y$
 d) $C = 100 + 0.8y$

21. As disposable income in the economy increases:

- a) both the APC and the APS rise
 b) the APC rises and the APS falls
 c) the APC falls and the APS rises
 d) both the APC and APS fall

22. If the income tax is progressive, the marginal tax rate must be:

- a) less than the average tax rate
 b) the same as the average tax rate
 c) greater than the average tax rate
 d) constant

23. Tax incidence indicates:

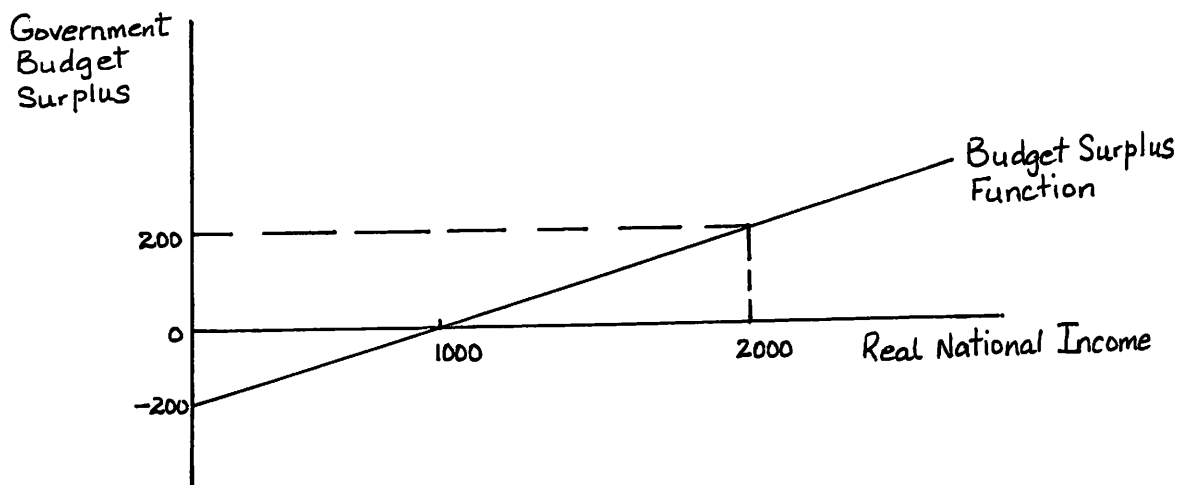
- a) who actually bears the final burden of the tax
 b) who pays the tax to the government
 c) the degree of progressivity in the tax
 d) the degree of vertical equity in the tax

24. The central idea behind the Laffer curve is that as tax rates increase:

- a) the tax base will increase
 b) the size of the government increases
 c) more economic activity will go unreported so as to evade income tax
 d) tax revenue will reach a maximum and then decline as tax rates continue to increase.

25. The judgment concerning whether a tax is regressive, proportional or progressive is based on a comparison of the amount of tax with the:
- tax base
 - taxpayer's income
 - value of the item being taxed
 - distribution of income
26. According to the benefit received principle of taxation:
- the amount of taxes paid should be equal across income groups
 - taxes should be paid according to the benefits that tax payers derive from public expenditure
 - there should be no user charges for government services
 - the economy benefits the most when the government maximizes its tax revenue.
27. Vertical equity in a tax system:
- concerns equity across income groups
 - focuses on comparisons of taxes paid by tax payers with different incomes
 - is often used to support regressive taxation
 - both (a) and (b) are correct

Refer to the following diagram to answer questions 28 and 29.



28. The marginal tax rate implied in the diagram is:
- zero
 - 0.1
 - 0.2
 - 0.4
29. When national income is 2,000:
- the government has a surplus budget of 200
 - government purchases exceed taxes net of transfers of 200
 - the government budget is balanced
 - net exports are 200
30. Disposable personal income is:
- always the same as personal income
 - income that is used only for consumption
 - personal income remaining after net income taxes
 - personal income minus capital consumption allowances
31. Suppose that a firm sells its output for \$40,000, that it pays \$22,000 in wages, \$10,000 for materials purchased from other firms, and \$3,000 to bankers and that it declares profits of \$5,000. The firm's value added is :
- \$18,000
 - \$40,000
 - \$30,000
 - \$35,000

32. In the Keynesian theory, output and employment in the economy depend:
- directly on the level of total expenditures
 - inversely on the quantity of resources available to it
 - directly on the level of disposable income
 - directly on the rate of interest
33. One of the first signs of a reduction in total spending will probably be:
- a tendency for prices to rise
 - a tendency for prices to fall
 - an increase in inventory levels
 - a decrease in inventory levels
34. Which of the following directly activates a country's productive capacity?
- money paid out to factors of production
 - money spent on imports
 - indirect taxes taken by government
 - money set aside in depreciation allowances
35. At the equilibrium level of national income consumption must:
- equal investment
 - be less than investment
 - be more than income
 - none of the above
36. An inflationary gap of \$20 million means that:
- actual GNP is \$20 million above full-employment GNP
 - prices will fall until GNP falls by \$20 million
 - an increase in spending of \$10 million is needed to reach full employment
 - none of the above
37. With a deflationary gap of \$25 and a multiplier of 5 then the needed increase in spending is:
- \$20 million
 - \$15 million
 - \$10 million
 - \$5 million
38. The accelerator principle:
- causes the final inflationary stages of a boom
 - refers to induced investment
 - refers to expansion of bank deposits
 - refers to inventory accumulation in the recovery phase
39. The multiplier and the accelerator effects operating together:
- tend to cancel each other out
 - help to explain why revivals, once started, continue upward
 - tend to keep growth going once it starts
 - make the amplitude of the cycle less than it otherwise would be
40. Many important problems of Economics concern the relationship between *flows* and *stocks*. Which of the following would be classified as **flows**?
- | | |
|-----|--------|
| I | money |
| II | wealth |
| III | income |
| IV | saving |
- I and II only
 - II and III only
 - III only
 - IV only

41. Which of the following would be included among the main sources of investment?
- I current savings of firms
 - II current savings of households
 - III bank deposits
 - IV profits from the discounting of bills
- a) I only
 - b) I and II only
 - c) III only
 - d) II only
42. The essence of regressive taxation is that the tax takes from a person:
- a) a relatively high proportion of his earned income only
 - b) a relatively high proportion of his earned and unearned income
 - c) a diminishing proportion of his income as that income increases
 - d) an increasing proportion of his income as that income increases
43. When Keynes defined a certain economic concept as “being equal to that rate of discount which would make the present value of the series of annuities given by the returns expected from the capital asset during its life just equal to its supply price” he was speaking of the:
- a) normal rate of depreciation
 - b) marginal efficiency of capital
 - c) replacement cost of capital
 - d) equilibrium rate of interest
44. If the government wishes to increase aggregate demand by tax measures, it could:
- a) reduce income tax
 - b) increase indirect taxes
 - c) cut children’s allowances
 - d) slightly reduce investment allowances
45. A government might seek to introduce a deflationary policy in order to:
- a) increase aggregate demand
 - b) reduce aggregate demand
 - c) control the prices of industrial goods
 - d) control the prices of foods
46. When a firm speaks of ‘stock appreciation’ it has in mind:
- a) increases in the prices of its shares quoted on the Stock Market
 - b) increases in the volume of stocks which it carries
 - c) an unexpected increase in the demand for its stocks
 - d) changes in the value of its stocks resulting from price movements
47. In national income terms the ‘automatic stabilizers’ have the effect of:
- a) keeping prices down
 - b) reducing the impact of direct taxation on the export industries only
 - c) reducing fluctuations in national income
 - d) reducing fluctuations in costs of production only
48. Assume that the level of income in a country increases by \$1,000 million. If the value of the accelerator is 1.5, the level of new investment will be:
- a) \$1.5 million
 - b) \$15 million
 - c) \$150 million
 - d) \$1,500 million

49. Gross investment equals the sum of:
- a) changes in inventories, new residential and non-residential construction and producer durables
 - b) the value of inventories, residential construction and machines
 - c) business shares and machines
 - d) plant and equipment
50. The paradox of thrift means that:
- a) an increase in saving lowers the level of real national income
 - b) an increase in the APS lowers or leaves unchanged the level of saving
 - c) an increase in the MPS lowers the value of the multiplier
 - d) an increase in real national income increases investment demand.

END OF EXAMINATION