

Mock Practice Test (30 Marks)

Section A: Knowledge (10 Marks)

1. What is the primary goal of expansionary fiscal policy?
 - a) Reduce government spending
 - b) Increase aggregate demand
 - c) Reduce inflation
 - d) Decrease the money supply

2. A government budget deficit occurs when:
 - a) Government spending is greater than revenue
 - b) Government spending equals revenue
 - c) Revenue is greater than government spending
 - d) Government has no debt

3. If interest rates rise, what happens to borrowing and saving?
 - a) Borrowing increases, saving decreases
 - b) Borrowing decreases, saving increases
 - c) Both borrowing and saving increase
 - d) Both borrowing and saving decrease

4. What is the function of the Bank of Canada in the economy?
 - a) Setting income tax rates
 - b) Controlling interest rates and money supply
 - c) Regulating trade policies
 - d) Managing foreign exchange rates

5. A tariff is a tax on:
 - a) Goods sold within a country
 - b) Goods exported to another country
 - c) Goods imported from another country
 - d) All goods produced in an economy

6. If the Canadian dollar appreciates against the U.S. dollar, what will likely happen?
 - a) Canadian imports from the U.S. become cheaper
 - b) Canadian exports to the U.S. increase
 - c) The value of the U.S. dollar increases
 - d) Canadian goods become cheaper for foreigners

 7. Which of the following best describes absolute advantage?
 - a) When a country produces a good with fewer resources than another country
 - b) When a country produces all goods better than another country
 - c) When a country imports more than it exports
 - d) When a country has trade restrictions

 8. During a recession, governments typically:
 - a) Increase spending and lower taxes
 - b) Reduce spending and increase taxes
 - c) Maintain the same level of spending
 - d) Reduce the money supply

 9. The balance of payments consists of:
 - a) Trade balance and exchange rates
 - b) Financial account and capital account
 - c) Government spending and exports
 - d) Imports and exports only

 10. If the government increases corporate taxes, what is the most likely effect?
 - a) Increased business investment
 - b) Higher consumer spending
 - c) Reduced business profits and investment
 - d) Lower unemployment
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Section B: Thinking (5 Marks)

True or False:

11. A strong Canadian dollar benefits Canadian exporters. (T/F)
 12. Inflation reduces the purchasing power of money. (T/F)
 13. The Bank of Canada is responsible for setting federal tax rates. (T/F)
 14. A floating exchange rate is determined by supply and demand. (T/F)
 15. A budget surplus occurs when government spending exceeds revenue. (T/F)
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Section C: Application (5 Marks)

16. The following table shows the value of the Canadian dollar against the Japanese yen over different months:

Month	Yen per 1 CAD
May 2021	85.00
October 2021	83.50
March 2022	80.75

A student needs 1,500,000 yen to study in Japan.

- a) Calculate the amount in Canadian dollars if they exchange in May 2021, October 2021, and March 2022. (3 marks)
- b) Who spent the most Canadian dollars? Who spent the least? (1 mark)

17. How would a depreciation of the Canadian dollar impact the following? (1 mark each)
- a) Canadian exporters
 - b) Canadian imports
 - c) Foreign tourists visiting Canada
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Section D: Critical Thinking (5 Marks)

18. **(2 Marks)** What are the benefits and drawbacks of using tight monetary policy to control inflation? Provide one advantage and one disadvantage.
19. **(2 Marks)** If the Bank of Canada raises interest rates, what effect might this have on:
 - a) Homebuyers
 - b) Businesses that need loans
20. **(1 Mark)** A government wants to reduce its budget deficit. What are two actions it could take?

Answer Key

Section A: Knowledge

1. b) Increase aggregate demand
2. a) Government spending is greater than revenue
3. b) Borrowing decreases, saving increases
4. b) Controlling interest rates and money supply
5. c) Goods imported from another country
6. a) Canadian imports from the U.S. become cheaper
7. a) When a country produces a good with fewer resources than another country
8. a) Increase spending and lower taxes
9. b) Financial account and capital account
10. c) Reduced business profits and investment

Section B: Thinking

11. False
12. True
13. False
14. True
15. False

Section C: Application

16.

a)

- May 2021: $1,500,000 \div 85.00 = 17,647$ CAD
 - October 2021: $1,500,000 \div 83.50 = 17,964$ CAD
 - March 2022: $1,500,000 \div 80.75 = 18,590$ CAD
- b) The student who exchanged in **March 2022** spent the most, while the student in **May 2021** spent the least.

17.

- a) **Canadian exporters** – Benefit, as their goods become cheaper for foreign buyers.
- b) **Canadian imports** – More expensive, as more CAD is needed to buy foreign goods.
- c) **Foreign tourists** – Benefit, as their money has more purchasing power in Canada.

Section D: Critical Thinking

18.

- **Advantage:** Helps control inflation by reducing excessive spending.

- **Disadvantage:** Can slow economic growth if interest rates are too high.
- 19.

- a) **Homebuyers** – Face higher mortgage costs, making homeownership more expensive.
b) **Businesses** – Borrowing becomes more expensive, leading to reduced investments.

20.

- **Increase taxes** to generate more revenue.
- **Reduce government spending** to decrease the deficit.