

Practice test 2

1. Concept: Consumer Price Index (CPI)

The Consumer Price Index (CPI) is a tool used to track inflation. It measures the average change over time in the prices paid by consumers for a basket of goods and services. Statistics Canada sets a base year (CPI = 100) and compares the cost of the same basket in other years to this base.

Question:

If the CPI in the base year is 100 and the cost of the same basket of goods increases from \$300 to \$315 in the next year, what is the CPI for the second year, and what does this indicate?

- a) 100, indicating no inflation
- b) 105, indicating 5% inflation
- c) 115, indicating 15% inflation
- d) 95, indicating deflation

2. Concept: Calculating the Inflation Rate

The inflation rate is the annual percentage increase in the CPI. It is calculated using the formula:

Question:

If the CPI was 120 last year and is 126 this year, what is the inflation rate?

- a) 5%
- b) 6%
- c) 7%
- d) 8%

3. Concept: Gross Domestic Product (GDP)

GDP is the total market value of all final goods and services produced within a country in a given year. It can be calculated using the expenditure approach: $GDP = C + G + I + (X - M)$, where:

C = Consumption

G = Government Spending

I = Investment

X - M = Net Exports (Exports minus Imports)

Question:

If in a given year, Consumption = \$500 billion, Government Spending = \$200 billion, Investment = \$150 billion, Exports = \$100 billion, and Imports = \$120 billion, what is the GDP?

- a) \$830 billion
- b) \$770 billion
- c) \$750 billion
- d) \$700 billion

4. Concept: Real vs. Nominal GDP

Nominal GDP is the total value of goods and services at current prices.

Real GDP adjusts for inflation and reflects the value of goods and services at constant prices, allowing for accurate comparisons over time.

Question:

Why is Real GDP a better measure of economic growth than Nominal GDP?

- a) It includes the underground economy.
- b) It is adjusted for inflation.
- c) It includes non-market production.
- d) It measures income distribution.

5. Concept: Unemployment Rate

The unemployment rate is the percentage of the labour force that is jobless and actively seeking work. It is calculated as:

If a country has a labour force of 20 million people and 1.5 million are unemployed, what is the unemployment rate?

- a) 6.5%
- b) 7.0%
- c) 7.5%
- d) 8.0%

6. Concept: Types of Unemployment

Structural Unemployment: Occurs when workers' skills do not match job requirements.

Frictional Unemployment: Short-term unemployment when people are between jobs.

Cyclical Unemployment: Caused by a downturn in the business cycle.

Question:

A factory worker loses her job because the company automated its production line. What type of unemployment is this?

- a) Frictional
- b) Cyclical
- c) Structural
- d) Seasonal

7. Concept: Limitations of GDP

GDP does not account for:

Non-market production (e.g., household work)

The underground economy

Environmental degradation

Income distribution

Question:

Which of the following is a limitation of using GDP to measure well-being?

- a) It includes illegal activities.
- b) It ignores income inequality.
- c) It measures only final goods.
- d) It includes government spending.

8. Concept: Full Employment

Full employment does not mean zero unemployment. It refers to the lowest possible unemployment rate without inflationary pressure, typically including frictional and structural unemployment.

Question:

In Canada, what unemployment rate range is generally considered "full employment"?

- a) 1–2%
- b) 3–4%
- c) 6–7%
- d) 8–9%

9. Concept: Fiscal Policy

Fiscal policy involves government spending and taxation to influence the economy. Lower taxes can increase disposable income and boost aggregate demand.

Question:

How would a tax cut likely affect aggregate demand?

- a) Decrease it
- b) Increase it
- c) No effect

d) Stabilize it

10. Concept: The Bank of Canada's Inflation Target

The Bank of Canada aims to keep inflation low and stable, with a target range of 1–3%. This helps maintain purchasing power and economic confidence.

Question:

What is the Bank of Canada's inflation control target range?

a) 0–1%

b) 1–3%

c) 3–5%

d) 5–7%

Answer Key:

b) 105 (Calculation: $315/300 \times 100 = 105$)

a) 5% (Calculation: $(126-120)/120 \times 100 = 5\%$)

a) \$830 billion (Calculation: $500 + 200 + 150 + (100 - 120) = 830$)

b) It is adjusted for inflation

c) 7.5% (Calculation: $1.5/20 \times 100 = 7.5\%$)

c) Structural (Due to technological change)

b) It ignores income inequality

c) 6–7%

b) Increase it

b) 1–3%