

Comprehensive Economics Quiz

Part 1: Macroeconomics Basics

1. Concept: Consumer Price Index (CPI)

The Consumer Price Index (CPI) tracks changes in prices of a fixed basket of goods and services. If the base year CPI is 100 and the basket costs \$400, and the next year it costs \$420, what is the new CPI?

- a) 100
- b) 105
- c) 110
- d) 120

2. Concept: Inflation Rate

If the CPI was 130 last year and is 136.5 this year, what is the inflation rate?

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

3. Concept: GDP Calculation

Using the expenditure approach ($GDP = C + G + I + (X - M)$), calculate GDP if:

Consumption = \$600B, Government = \$250B, Investment = \$180B, Exports = \$120B, Imports = \$150B

- a) \$900 billion
- b) \$950 billion
- c) \$1,000 billion
- d) \$1,050 billion

4. Concept: Real vs. Nominal GDP

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

If a country has a labour force of 25 million people and 2 million are unemployed, what is the unemployment rate?

- a) 7.5%
- b) 8.0%
- c) 8.5%
- d) 9.0%

6. Concept: Unemployment Types

A factory worker loses his job because the company automated its production line. This is:

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

7. Concept: Limitations of GDP

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

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: Bank of Canada's Role

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

- a) 0-1%
- b) 1-3%
- c) 3-5%
- d) 5-7%

10. Concept: Fiscal Policy Impact

How would a tax cut likely affect aggregate demand?

- a) Decrease it

- b) Increase it
 - c) No effect
 - d) Stabilize it
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Part 2: Government Budgets and Fiscal Policy

11. Concept: Budget Deficits and Surpluses

When government spending (G) exceeds tax revenue (T), the result is:

- a) Budget surplus
- b) Budget deficit
- c) Balanced budget
- d) Trade deficit

12. Concept: Keynesian Economics

According to Keynes, when should governments run budget deficits?

- a) During economic expansions
- b) During recessions
- c) During periods of high inflation
- d) Never

13. Concept: Fiscal Policy

If the government increases infrastructure spending without raising taxes, this is:

- a) Contractionary fiscal policy
 - b) Expansionary fiscal policy
 - c) Monetary policy
 - d) Trade policy
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Part 3: International Trade

14. Concept: Absolute Advantage

Country A can produce 500 cars or 1000 computers. Country B can produce 400 cars or 800 computers. Which country has the absolute advantage in car production?

- a) Country A
- b) Country B

- c) Both have equal advantage
- d) Cannot be determined

15. Concept: Comparative Advantage

If Country A can produce 10 tons of wheat or 5 tons of steel, and Country B can produce 8 tons of wheat or 4 tons of steel, which country has the comparative advantage in steel production?

- a) Country A
- b) Country B
- c) Both have comparative advantage
- d) Neither has comparative advantage

16. Concept: Protectionism

A limit on the quantity of foreign cars that can be imported is called:

- a) Tariff
- b) Quota
- c) Subsidy
- d) Embargo

17. Concept: Trade Balance

If Canada exports \$75 billion and imports \$90 billion, it has:

- a) Trade surplus of \$15 billion
- b) Trade deficit of \$15 billion
- c) Balanced trade
- d) Trade surplus of \$165 billion

18. Concept: Trade Agreements

Which organization oversees global trade rules and dispute settlement?

- a) International Monetary Fund (IMF)
- b) World Trade Organization (WTO)
- c) United Nations (UN)
- d) World Bank

19. Concept: Globalization

What is the main benefit of globalization for consumers?

- a) Higher prices for goods
- b) Less product variety
- c) Lower prices and more choice
- d) Reduced competition

20. Concept: Trade Barriers

A tax on imported goods is called:

- a) Quota
 - b) Subsidy
 - c) Tariff
 - d) Embargo
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Part 4: Application Questions

21. Scenario Analysis

Canada is experiencing high unemployment and slow economic growth. The government decides to increase spending on infrastructure projects while maintaining current tax levels.

What type of fiscal policy is this?

- a) Contractionary fiscal policy
- b) Expansionary fiscal policy
- c) Neutral fiscal policy
- d) Monetary policy

22. Trade Benefit Analysis

If Canada has a comparative advantage in producing lumber and Mexico has a comparative advantage in producing automobiles, what would be the most beneficial trade arrangement?

- a) Canada should produce both lumber and automobiles
- b) Mexico should produce both lumber and automobiles
- c) Canada should specialize in lumber and Mexico in automobiles
- d) No trade should occur between the two countries

23. Inflation Impact

If the inflation rate is 5% and your salary increases by 3%, what happens to your purchasing power?

- a) Increases by 8%
- b) Increases by 2%
- c) Decreases by 2%
- d) Stays the same

24. Economic Growth Measurement

Which of the following would indicate the healthiest economic growth?

- a) Nominal GDP growth of 6% with 4% inflation
- b) Real GDP growth of 3% with 1% inflation
- c) Nominal GDP growth of 8% with 6% inflation
- d) Real GDP growth of 2% with 0% inflation

25. Policy Coordination

If the Bank of Canada raises interest rates while the government implements expansionary fiscal policy, what is the likely outcome?

- a) Strong economic growth
 - b) Conflicting effects on the economy
 - c) Deflation
 - d) Trade surplus
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ANSWER KEY

1. b) 105 (Calculation: $420/400 \times 100 = 105$)
2. a) 5% (Calculation: $(136.5-130)/130 \times 100 = 5\%$)
3. c) \$1,000 billion (Calculation: $600 + 250 + 180 + (120-150) = 1,000$)
4. b) It is adjusted for inflation
5. b) 8.0% (Calculation: $2/25 \times 100 = 8\%$)
6. b) Structural unemployment (Due to technological change)
7. b) It ignores income inequality
8. c) 6-7%
9. b) 1-3%
10. b) Increase it
11. b) Budget deficit (When $G > T$)
12. b) During recessions (To stimulate the economy)
13. b) Expansionary fiscal policy (Increased spending stimulates economic activity)
14. a) Country A (Can produce more cars: 500 vs 400)
15. a) Country A (Lower opportunity cost for steel)
16. b) Quota (Quantity restriction on imports)
17. b) Trade deficit of \$15 billion ($75 - 90 = -15$)
18. b) World Trade Organization (WTO)
19. c) Lower prices and more choice
20. c) Tariff
21. b) Expansionary fiscal policy
22. c) Canada should specialize in lumber and Mexico in automobiles
23. c) Decreases by 2% (3% raise - 5% inflation = -2% real change)
24. b) Real GDP growth of 3% with 1% inflation (Sustainable growth with low inflation)
25. b) Conflicting effects on the economy (Monetary tightening vs fiscal expansion)