Name:\_\_\_\_\_\_\_\_\_\_\_\_\_

Following 10 multiple choice questions are worth 1 mark each. Circle the best answer. [10 marks]

1. Canada has an annual inflation rate of 5%. This means the overall prices are rising at 5%.
2. True b) False
3. Seasonal unemployment is not part of official unemployment rate.
4. True b) False
5. The nominal interest rate is 8%, inflation premium on loans is 1.5%, and actual rate of inflation is 1.5%. Who is winning in this case?
6. Borrower b) Lender c) No one is affected
7. The nominal interest rate is 11%, inflation premium on loans is 8%, and actual rate of inflation is 5%. What is actual interest rate?
8. 8% b) 5% c) 6% d) 3%
9. If actual inflation > anticipated inflation, who is winning?
10. Borrower b) Lender c) No one is affected
11. All people who either have a job or are actively seeking employment:
12. Labor force population b) Labor force c) Employment rate d) Participation rate
13. A % built into a nominal interest rate to anticipate the rate of inflation for the loan period is called:
14. Real inflation rate b) Real interest rate c) Desired interest rate d) Inflation premium
15. A recent UBC graduate looking for a job in Vancouver is part of:
16. Frictional unemployment b) Structural unemployment c) Cyclical unemployment

d) Seasonal unemployment

1. What is an example of underemployment?
2. Part-time worker looking for full-time job

b) A high school graduate working at an accounting firm

c) A construction worker who is paid money under-the-table

d) An unemployed worker who has given up looking for work

1. Unemployment due to mismatch between people and jobs is:
2. Frictional unemployment b) Structural unemployment c) Cyclical unemployment

d) Seasonal unemployment

Long Answer Questions

Show all your work for following three questions. If you do not show your work, you will not receive any marks. You will receive partial marks even if the answer is incorrect based on shown work. [Total of 40 marks]

1. Suppose the shopping basket includes only three items: apples, pears, and grapes. Survey in 2010 shows that, each month, an average consumer buys 45 apples at $1.20 each, 50 pears at $1.40 each, and 10 grapes at $2.40 each.
2. Calculate the value of 2010 shopping basket, item weights, and CPI. [5 marks]
3. In 2011, prices of apples rise to $1.40, prices of pears remain constant, and prices of grapes drop to $2.00 each. Calculate the value 2011 shopping basket, CPI, and inflation rate. [5 marks]
4. Jason’s income rises from $70,000 to $77,000 during a year when the CPI rises from 100 to 110. If the consumer’s own monthly purchases roughly correspond to those in the representative “shopping basket,” what’s Jason’s personal impact of inflation? Explain: 1) How did Jason’s purchasing power change? 2) What type of income indexation is this? [4 marks]
5. Using Okun’s Law, calculate costs of unemployment in following years:
6. In 2011, the unemployment rate was 9.5% and the real GDP in 2010 dollars was $880 billion. Assume a natural unemployment rate of 6%. [3 marks]
7. In 2012, the unemployment rate was 8.9% and the real GDP in 2010 dollars was $760 billion. Assume a natural unemployment rate of 5.5%. [3 marks]
8. Complete the table below. **Show all your work**. [6 marks]

|  |  |  |  |
| --- | --- | --- | --- |
| Year | Nominal GDP  ( $ billions) | GDP Deflator | Real GDP  (2009 $ billions) |
| 2007  2008  2009  2010  2011 | $ \_\_\_\_\_\_\_\_\_  470  550  610  660 | 88  96  \_\_\_\_\_\_\_  103  \_\_\_\_\_\_\_ | $ 500  \_\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_  610 |

**Country X**

Total population 15 years of age and over 42 million

15 years of age and over living in the Territories 8 million

15 years of age and over in institutions 1 million

Full-time members of armed forces 3 million

Part-time workers who wish to have full-time jobs 2 million

Part-time workers who do not wish to have full time jobs 6 million

Workers with full-time jobs 15 million

Unemployed members of the labour force 3 million

1. Use the data in the table above to calculate the following variables:
2. The labour force population [2 marks]
3. The labour force [2 marks]
4. The participation rate [2 mark]
5. The official unemployment rate [2 mark]
6. Explain following employment conditions, and whether or not the individual is included in the official unemployment rate. [6 marks]
7. A former construction worker who gives up looking for work and receives employment insurance
8. A part-time sales representative who is looking for a full-time employment in a different occupation.
9. A self-employed tutor who has not been reporting his income to the government and is on welfare
10. A fashion designer who loses his job during an economic downturn
11. A fisherman who is unemployed during the winter months
12. A recent nursing program graduate searching for her first job

Bonus: List the top three most weighted items in a typical consumer shopping basket. [1 mark]

Top 1: \_\_\_\_\_\_\_\_\_

Top2:\_\_\_\_\_\_\_\_\_\_

Top 3:\_\_\_\_\_\_\_\_\_\_