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

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

1. Natural unemployment is the unemployment rate that defines full employment.
2. True b) False
3. The nominal interest rate is 8%, inflation premium on loans is 3%, and actual rate of inflation is 3%. Who is winning in this case?
4. Borrower b) Lender c) No one is affected
5. The nominal interest rate is 9%, inflation premium on loans is 6%, and actual rate of inflation is 5%. What is actual interest rate?
6. 4% b) 3% c) 2% d) 1%
7. Nominal income that rises at less than the inflation rate is:
8. Low indexation b) Full indexation c) Fixed indexation d) Partial indexation
9. Unemployment due to being temporarily between jobs is:
10. 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. [25 marks]

1. Suppose the shopping basket includes only three items: hamburgers, cola, and milkshakes. Survey in 2010 shows that, each month, an average consumer buys 38 hamburgers at $2 each, 20 bottles of cola $1.75 each, and 10 milkshakes at $3.50 each.
2. Calculate the value of 2010 shopping basket, item weights, and CPI. [5 marks]
3. In 2011, prices of hamburgers remain constant, prices of cola rise to $2.00 each and prices of milkshakes drop to $3.40 each. Calculate the value 2011 shopping basket, CPI, and inflation rate. [5 marks]
4. George’s income rises from $63,000 to $65,000 during a year when the CPI rises from 100 to 107. If the consumer’s own monthly purchases roughly correspond to those in the representative “shopping basket,” what’s George’s personal impact of inflation? In other words, how did George’s purchasing power change? [3 marks]
5. Complete the table below. Show all your work. [6 marks]

|  |  |  |  |
| --- | --- | --- | --- |
| Year | Nominal GDP( $ billions) | GDP Deflator | Real GDP(2009 $ billions) |
| 20072008200920102011 | $ \_\_\_\_\_\_\_\_\_ 490 560 580 620 | 8998\_\_\_\_\_\_\_108\_\_\_\_\_\_\_  |  $ 510 \_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_ 570 |

**Country X**

Total population 15 years of age and over 42 million

15 years of age and over living in the Territories 7 million

15 years of age and over in institutions 2 million

Full-time members of armed forces 1 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 [1 mark]
5. The official unemployment rate [1 mark]