Econ 101: Introductory Economics
Quiz III (Version a), 18 March 2016

Name (Last) ________ (First) ________
Student # __________

Part A: Choose the best answer for the following 20 questions. Make only one choice for each question. (40 marks)

1. All goods and services produced by one firm but used as inputs into a further stage of production are called
   A. national income goods.
   B. intermediate goods.
   C. final goods.
   D. value added.

2. In Shoetown, a rancher takes $0 worth of inputs and produces animal skins, which he sells to the tanner for $400. The tanner then sells leather to the shoemaker for $700, and the shoemaker then sells $1200 worth of shoes. The value added by the tanner is
   A. $0.
   B. $300.
   C. $500.
   D. $1200.

3. In Canada, the measurement of national income and national product is conducted by
   A. the Bank of Canada.
   B. the Department of Finance.
   C. statisticians in universities.
   D. Statistics Canada.

4. A farmer raises free-range chickens, which he sells to a company for $1000. That company sells the "processed" chickens to a grocery store for $1600, which in turn produces roasted chickens which are sold to the public for $2400. Based on this information, the value of total output is equal to
   A. $5000
   B. $1400
   C. $2400
   D. $1600

5. When adding up the value of all goods produced in the economy, double counting can be avoided if only the
   A. value of intermediate goods and services
   B. cost of intermediate goods and services
   C. revenue of all goods and services
   D. value of final good and services

6. To calculate GDP from the expenditure side, one must add together
   A. wages, profits, government purchases and net exports.
   B. consumption, investment, government purchases, and exports.
   C. consumption, government purchases, and interest.
   D. consumption, investment, government purchases, and net exports.
7). Which of the following purchases by households is considered as consumption expenditure for the purposes of national-income accounting (i.e. calculation of GDP)?
   A). a Government of Canada Treasury bill
   B). legal services
   C). the purchase of company stock
   D). a new house

8). When calculating GDP from the expenditure side, G comprises
   A). government purchases of goods and services, excluding transfer payments.
   B). government expenditures on goods and services, including transfer payments.
   C). only expenditures made by provincial and local governments.
   D). only expenditures made by the federal government.

9). In national-income accounting, a reduction of inventories counts as
   A). positive investment.
   B). negative investment.
   C). government expenditure.
   D). consumption.

10). In macroeconomics, the term "capital goods" refers to
   A). stocks and bonds.
   B). the financial resources necessary to start a firm.
   C). man-made factors of production, such as tools, machines, and factory buildings.
   D). money.

11). Transfer payments are excluded from the government component in the calculation of GDP because
   A). they do not generate additional income in the economy.
   B). they do not represent the purchase of a good or a service.
   C). they are not counted as income by any economic agent.
   D). they are small enough to ignore when computing the national accounts.

12). Which of the following would be classified as "investment" in the national income and product accounts?
   A). the purchase of Telus stock
   B). the purchase of a government bond
   C). the payment of real-estate fees
   D). the construction of a new factory

13). Suppose a Canadian firm imports $1000 worth of bananas and sells them for $2000. The effect on Canadian GDP would be
   A). to increase the value of GDP by $3000.
   B). to increase the value of GDP by $1000.
   C). to decrease the value of GDP by $3000.
   D). no effect on GDP since the bananas were produced outside Canada.

14). Which one of the following government expenditures is an example of "government purchases"?
   A). $4000 spent for services provided by a private consultant
   B). $100 000 paid as interest on the national debt
   C). $1000 paid to a poor person for income support
   D). $2000 paid to a retiree

15). Which of the following pairs are conceptually identical?
   A). personal income and labour income
   B). gross domestic product and gross domestic expenditure
The table below shows total output for an economy over 2 years.

<table>
<thead>
<tr>
<th></th>
<th>Price</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good A</td>
<td>$1.00</td>
<td>100 units</td>
</tr>
<tr>
<td>Good B</td>
<td>$2.00</td>
<td>200 units</td>
</tr>
<tr>
<td>Good C</td>
<td>$5.00</td>
<td>100 units</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Price</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good A</td>
<td>$2.00</td>
<td>120 units</td>
</tr>
<tr>
<td>Good B</td>
<td>$3.00</td>
<td>200 units</td>
</tr>
<tr>
<td>Good C</td>
<td>$10.00</td>
<td>98 units</td>
</tr>
</tbody>
</table>

### TABLE 20-5

16. Refer to Table 20-5. The nominal Gross Domestic Product in 2012 was
   A. $840
   B. $1820
   C. $1740
   D. $1000

\[ \sum P_{12} \cdot Q_{12} = 1000 \]

17. Refer to Table 20-5. The nominal Gross Domestic Product in 2013 was
   A. $840
   B. $1820
   C. $1740
   D. $980

\[ \sum P_{13} \cdot Q_{13} = 1820 \]

18. Refer to Table 20-5. The real GDP in 2012, with 2012 as base year, was
   A. $840
   B. $970
   C. $1000
   D. $1010

\[ \text{same as } N \cdot GDP_{12} \]

19. Refer to Table 20-5. The real GDP in 2013, with 2012 as base year, was
   A. $840
   B. $970
   C. $1820
   D. $1010

\[ \sum P_{12} \cdot Q_{13} = 1(120) + 2(200) + 5(98) = 1010 \]

20. Refer to Table 20-5. The real GDP in 2012, with 2013 as base year, was
   A. $840
   B. $970
   C. $1800
   D. $1010

\[ \sum P_{13} \cdot Q_{12} = 2(100) + 3(200) + 10(180) = 1800 \]
Part B: Answer all questions. MUST show all work in the space provided, otherwise, no mark will be given. (10 marks)

1. Pepsi and Coke, must each select their advertising expenditures. There are two sizes of advertising budgets: moderate and large. The payoff matrix for this two firm game is shown below. The payoffs are thousands of dollars of profit. For each quadrant, (Pepsi’s profit, Coke’s profit)

<table>
<thead>
<tr>
<th>Coke’s Strategy</th>
<th>Large</th>
<th>Moderate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large</td>
<td>(90, 50)</td>
<td>(50, 60)</td>
</tr>
<tr>
<td>Moderate</td>
<td>(80, 80)</td>
<td>(60, 90)</td>
</tr>
</tbody>
</table>

Find the non-cooperative outcome. Explain. (10 marks)

(i). If C chooses L, then P will choose M; 90 > 50

(ii). If P chooses M, then C will choose M; 50 > 30

\[ \therefore \text{ both choose } M. \]