

OLLSCOIL NA hÉIREANN, GAILLIMH
NATIONAL UNIVERSITY OF IRELAND, GALWAY

SUMMER EXAMINATIONS 2000

EC217 – MACROECONOMICS
2nd Arts (Economic and Social Studies), St. Angela's College

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INSTRUCTIONS

Time Allowed: 3 Hours

There are two sections to this exam for a total of 360 marks.

In Section A, answer **18 out of the 24** short-answer questions (10 marks per question for a total of 180 marks).

In Section B, choose **3 out of the 6** questions to answer (60 marks per question for a total of 180 marks).

Note: 3 hours = 180 minutes. 360 marks in 180 minutes equals 2 marks per minute. Allocate your time efficiently.

SECTION A

Answer 18 out of the 24 short-answer questions (10 marks per question or 5 minutes per question).

1. Distinguish between the Consumer Price Index and the GDP Deflator.
2. Describe the three factors that account for the difference between GDP and National Income.
3. How are deficits/surpluses in the private sector, the government sector and the foreign sector related to each other?
4. Explain how a perfectly competitive firm decides how much labour to hire, given the real wage rate.
5. With a fixed output level, explain what is meant by "crowding-out".
6. What is the "Solow residual"?
7. In terms of the Solow growth model, describe the convergence hypothesis.
8. Explain two sources of real wage rigidity.
9. Describe the natural, or equilibrium, rate of unemployment.
10. What is meant by "efficiency wages"?
11. Briefly discuss the evolution of US and European unemployment rates since the mid 1970s.
12. Distinguish between nominal and real exchange rates.
13. Explain how changes in the real exchange rate can affect the Current Account of the Balance of Payments.
14. Distinguish between a bilateral and a trade-weighted exchange rate.
15. What is meant by Purchasing Power Parity?
16. What are the functions that money performs?
17. What is an Open Market Operation?
18. Explain what is meant by money neutrality in the long run.
19. What is Okun's Law?
20. What does the Phillips Curve show?
21. What is meant by adaptive expectations?
22. What are automatic stabilisers?
23. Define the cyclically adjusted budget deficit.
24. What is Ricardian Equivalence?

SECTION B

Choose **3 out of the 6** questions to answer (60 marks per question for a total of 180 marks).

- 1 Use the Solow Growth model framework to show how technical progress is the only source of long run growth in incomes per person. (45 marks)
Explain and illustrate the effect of an increase in the savings rate on the economy. (15 marks)
- 2 Briefly describe two of the three factors that determine the demand for nominal money stock. (10 marks)
Explain fully the long run links between the money supply, money demand, inflation, nominal interest rates and the nominal exchange rate. (50 marks)
- 3 Consider a closed economy that is operating at an output level that is below the equilibrium output level. Assuming flexible prices, illustrate and explain fully how the economy returns to the equilibrium output level. Also, explain and illustrate what happens if prices are not flexible.
- 4 Use the IS/LM framework to illustrate the effectiveness of monetary and fiscal policies under both fixed and floating exchange rate regimes. Assume a small open economy operating in the short run.
- 5 “There is always a temporary tradeoff between inflation and unemployment; there is no permanent tradeoff” – Milton Friedman. Illustrate and fully explain this quote.
- 6 In the context of economic policymaking discuss the distinction between activist and passive policy. (30 marks)
In terms of both monetary and fiscal policy, how might policymaking be improved by a commitment to rules, rather than discretion? (30 marks)