

OLLSCOIL NA hÉIREANN, GAILLIMH
NATIONAL UNIVERSITY OF IRELAND, GALWAY

SUMMER EXAMINATIONS 2002

EC100 ECONOMICS PAPER 2

1st B.A. (Economic and Social Studies), St. Angela's College, Sligo

Professor Michael Keane
Professor Huw Dixon
Mr. Stephen McNena

Time allowed: THREE hours

Marks: 350

Please note that there are specific instructions for each of the three sections in this exam paper: section A, section B and section C (Multiple Choice questions).

SECTION A
(90 marks)

Instructions: Write a short note (maximum two paragraphs) on any **six** of the following:

1. Personal (or household) disposable income
2. The size of the Keynesian expenditure multiplier in Ireland
3. Three functions of money
4. A monetary accommodation of a fiscal expansion
5. Supply-side policies
6. Two effects of a stronger exchange rate
7. The costs and benefits of EMU
8. Three types of unemployment
9. Two methods of measuring unemployment in Ireland
10. The Current Budget Deficit, the Exchequer Borrowing Requirement and the National Debt

SECTION B
(160 marks)

Instructions: Answer two of the following three questions. All questions are worth 80 marks.

1.

- (a) Using a well-labelled diagram, draw the circular flow model for a closed economy. Make sure to show GDP and Personal Disposable Income on the diagram.
 - (b) Explain the difference between GDP and GNP. Why is this difference important in Ireland?
 - (c) Carefully explain, using an example, the difference between changes in nominal and real GDP.
 - (d) Discuss how GDP-per-capita may not be a reliable indicator of the quality of life in a country.
 - (e) The Keynesian model of Income Determination is one of the basic foundations of modern macroeconomics. Briefly discuss the three types of expenditures in this model.
- Imagine an economy with autonomous expenditure of €500 million. The MPC is 0.60.
- (i) Calculate the equilibrium output level in this economy.
 - (ii) Calculate the value of the simple expenditure multiplier in this economy.
 - (iii) If the government of this economy increase their expenditure on goods and services from €250m to €260m, what will be the effect on equilibrium output? Explain.

2.

- (a) Discuss two of the reasons that people hold money, as suggested by Keynes.

Suppose the Central Bank is concerned about rising inflation rates. They decide to introduce a reduction in the supply of money. Everything else is held constant.

- (b) Using the Theory of Liquidity Preference, illustrate and explain the effects of this action on the money market. What happens to interest rates?
- (c) What is the name given to this type of policy? Use a well-labelled IS/LM diagram to show the effect of this action on equilibrium output.
- (d) Will this response by the Central Bank have the desired effect on inflation? Use the AD/AS model to analyse the effect of the decrease in the money supply on the price level.

3.

- (a) Define inflation and the inflation rate.
- (b) Briefly discuss the measurement of inflation in Ireland.
- (c) (i) Discuss at least two causes of price inflation.
(ii) Using a numerical example, explain how a country can import inflation.
- (d) Discuss some of the consequences of inflation under the following headings:
1. Shoeleather costs
 2. Menu costs
 3. International competitiveness
- (e) Why do some economists question the accuracy of published inflation data?

SECTION C
Multiple Choice Questions (100 marks)

Please be careful when answering the following Multiple Choice questions. Write your answers in the same order as the questions. Please write clearly and legibly, as the letters “a”, “c”, and “d” can often be confused. Negative marking applies. (5 marks for a correct answer, 0 marks for an unanswered question and a penalty of –1 mark for an incorrect answer)

1. Which of the following are all examples of injections into the circular flow
 - (a) exports, income and consumption
 - (b) exports, consumption and transfer payments
 - (c) investment, government expenditures and transfer payments
 - (d) exports, taxes and savings
 - (e) none of the above

2. Which of the following is the more accurate measure of the standard of living in Ireland
 - (a) nominal GDP
 - (b) real GDP per person
 - (c) real GNP per person
 - (d) the level of interest rates
 - (e) the level of house prices

3. The difference between GNP and NNP is accounted for by
 - (a) interest rates
 - (b) savings
 - (c) depreciation
 - (d) net factor income sent abroad
 - (e) indirect taxes

4. If the general price level in Ireland is rising by 4% per year, and the volume of goods and services being produced is increasing by 3% per year then
 - (a) nominal GDP is rising at 3% per year
 - (b) real GDP is rising at 1% per year
 - (c) nominal GDP is rising by 7% per year
 - (d) real GDP is increasing at a rate of 3% per year
 - (e) both (c) and (d)

5. Keynes believed that the large-scale unemployment experienced during the Great Depression was due to
- (a) wage rates being too high
 - (b) a deficient level of aggregate demand in the economy
 - (c) very high interest rates
 - (d) low inflation rates
 - (e) oil prices being too high
6. If the simple Keynesian multiplier is 2.50, and autonomous expenditure falls by €20 million, the result will be
- (a) smaller increases in output
 - (b) no change in the level of output
 - (c) output will fall by €22.50 million
 - (d) output will fall by €50 million
 - (e) output fall by €8 million
7. The principle assumptions of the Keynesian model of Income Determination are
- (a) the general price level in the economy is fixed
 - (b) the level of output depends on the level of aggregate expenditure
 - (c) the economy is operating below its maximum capacity
 - (d) all of the above
 - (e) none of the above
8. The narrow money supply (M1) consists of
- (a) all notes plus all coins in circulation
 - (b) currency in circulation plus current accounts in commercial banks
 - (c) currency in circulation plus savings (deposit) accounts
 - (d) currency, current accounts and savings accounts
 - (e) none of the above
9. In the Keynesian Liquidity Preference theory, higher incomes will
- (a) cause interest rates to fall
 - (b) cause the money supply to expand
 - (c) increase both the demand for money and the interest rate
 - (d) cause the demand for money to fall
 - (e) cause the money supply to decrease
10. In the IS/LM model expansionary fiscal policy results in
- (a) higher interest rates
 - (b) lower demand for money
 - (c) higher interest rates and higher output levels
 - (d) higher interest rates and lower output levels
 - (e) higher money supply

11. Which of the following causes an outward shift of the LM curve
- (a) falling interest rates
 - (b) lower output levels
 - (c) increased government expenditure
 - (d) lower income taxes
 - (e) higher money supply
12. Supply-side policies
- (a) attempt to increase the productive capacity of the economy
 - (b) cause the Aggregate Supply curve to shift
 - (c) can result in increased aggregate supply at each and every price level
 - (d) include both fiscal policies and monetary policies
 - (e) (a), (b), and (c) above
13. An decrease in interest rates
- (a) causes a movement up and to the left along the aggregate demand curve
 - (b) causes a downward shift in the aggregate supply curve
 - (c) causes a decrease in the price level
 - (d) causes a shift outwards of the aggregate demand curve
 - (e) causes an upward shift in the aggregate supply curve
14. Which of the following causes a movement along the aggregate supply curve
- (a) an increase in the price level
 - (b) an increase in investment
 - (c) a decrease in the money supply
 - (d) a decrease in government spending
 - (e) an increase in autonomous consumption
15. The Balance of Payments records all the transactions between Ireland and the rest of the world. It is split into the Current Account and the Capital Account. Suppose you receive dividend payments from your ownership of some Vodafone shares in the UK. Where would this transaction be recorded?
- (a) Current account, imports of goods and services
 - (b) Capital account
 - (c) Current account, international transfer payments
 - (d) Current account, investment income flows
 - (e) this transaction is not recorded in the Balance of Payments

16. Membership of Economic and Monetary Union (EMU) means that

- (a) prices of consumer goods and services are identical across the eurozone
- (b) inflation rates will be identical across the eurozone
- (c) the 12 participating countries use their own currency and the euro currency
- (d) the 12 participating countries use a single currency and have a single monetary policy
- (e) unemployment rates are all the same across Europe

17. The rate of unemployment is equal to

- (a) the number of unemployed as a percentage of the labour force
- (b) the number unemployed as a percentage of the number employed
- (c) the number of unemployed as a percentage of the population
- (d) the number of unemployed as a percentage of all those aged over 15
- (e) the labour force participation rate

18. The Labour Force Participation Rate measures

- (a) employment
- (b) the size of the working-age population
- (c) the proportion of the working-age population that are either employed or unemployed
- (d) the size of the labour force
- (e) unemployment

19. The Exchequer Borrowing Requirement is

- (a) the same as the Current Budget deficit
- (b) the sum of the Current and Capital budget deficits
- (c) equivalent to the national debt
- (d) the principal cause of a rising national debt
- (e) both (b) and (d)

20. Productivity measures

- (a) the growth of incomes per head
- (b) the quantity of output per hour of labour input
- (c) the total production of goods and services in the economy
- (d) the quantity of output per worker
- (e) none of the above