GD424

OLLSCOIL NA hEIREANN, GAILLLIMH
THE NATIONAL UNIVERSITY OF IRELAND, GALWAY

SUMMER EXAMINATIONS 2002

MACROECONOMICS (EC213)
Second Commerce

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Time allowed: Three Hours

This exam paper consists of 3 parts: Multiple-choice questions (30 points), short questions (60 points) and long questions (60 points). Please use a different answer book for each part of the paper.

Part A (10 short questions)

Please answer any 6 questions

1. Is GDP a good measure of economic activity? Discuss.

2. Distinguish between GDP and GNP.

3. Distinguish between the Classical and Keynesian AS curves.

4. Outline the effects of building a new motorway on National Income? How would you describe such a policy?

5. What causes shifts in the LM curve?

6. Outline four costs to society of expected inflation

7. What are the costs and benefits to a small country of:

(a) having its own currency or
(b) using the currency of a larger neighbour

8. In a given country, the velocity of money is constant. If real GDP grows by 5% per year, the nominal interest rate is 11 percent and the money stock grows by 14 % per year, what is the inflation rate?

9. Starting from a position where trade is balanced, show and describe the effect of a domestic fiscal expansion on a small open economy?

10. What is the difference between nominal and real exchange rates?

Part B (4 Long Questions)

Please answer any 2 questions.

1. (a) Derive the IS Curve

(b) Use the IS-LM model to show the effect on the interest rate, income, consumption and investment when there is

(i) An increase in the Money Supply
(ii) An increase in Government purchases
(iii) A decrease in taxes

(c) What effect do each of these changes have on the AD curve?

2.

(i) Consider an economy described by the following equations:

$$Y = C + I + G + NX$$
$$Y = 5000$$
$$G = 1000$$
$$T = 1000$$
$$C = 250 + 0.75(Y-T)$$
$$I = 1000 - 50r$$
$$NX = 500 - 500\_$$
$$r = r^* = 5$$

a. In this economy, solve for national saving, investment, the trade balance and the equilibrium exchange rate.

b. Suppose the world interest rate rises from 5 to 10 percent. Solve for national saving, investment, the trade balance and the equilibrium exchange rate. Explain what you find.

(ii) Are trade deficits always bad? Explain.

3.

(a) In an economy where the initial steady-state capital stock is below the golden rule level, if a larger share of national output were to be devoted to investment, what effect would this have on productivity growth and living standards?

(b) Outline verbally and graphically the impact of an increase in the rate of population growth on capital per worker and on incomes.

4.

(a) Outline and illustrate the main differences between the Classical and the Keynesian macroeconomic analysis of unemployment.

(b) What policy prescriptions regarding unemployment are likely to be recommended by (i) Classical and (ii) Keynesian Economists .

Part C (10 Multiple-Choice Questions)

Please answer ALL questions. For each question, indicate the most appropriate answer in your answer book.

1. Which of the following is a function of money?

    a. store of value
    b. unit of account
    c. medium of exchange
    d. all of the above

2. An increase in inflation has which of the following effects?

    a. increase in the nominal interest rate
    b. increase in the opportunity cost of holding money
    c. reduction in real money balances
    d. all of the above

3. Okun's Law states that:

    a. high GDP growth is often associated with a reduction in the unemployment rate.
    b. inflation is negatively related to unemployment
    c. inflation is positively related to unemployment
    d. none of the above

4. An increase in the unemployment rate will tend to be associated with:

    a. a reduction in the separation rate
    b. an increase in the separation rate
    c. a reduction in wages
    d. a reduction in bargaining power

5. A reduction in the real exchange rate indicates that:

   a. Domestic goods are now relatively cheaper
   b. Domestic goods are now relatively more expensive
   c. Foreign goods are now relatively cheaper
   d. Both b and c

6. "Rational expectations" assumes that people:

   a. Can accurately predict the future.
   b. form their predictions randomly
   c. predict the future by observing the past
   d. Use all available information in predicting the future.

7. A tariff is:

   a. a foreign bond
   b. an order for foreign goods that have not yet been delivered
   c. a tax on imported goods
   d. a restriction on the quantity of imported goods allowed into the country

8. The real exchange rate is :

   a. the price of foreign goods in terms of domestic goods
   b. the price of foreign currency in terms of domestic currency
   c. the price of domestic goods in terms of foreign goods
   d. the price of domestic currency in terms of foreign currency.

9. The Fisher effect summarizes the impact of :

   a. inflation on the nominal interest rate
   b. inflation on the natural real interest rate
   c. unemployment on the nominal interest rate
   d. none of the above

10. In an open economy an increase in the interest rate will ultimately cause a decrease in

   a. investment
   b. exports
   c. net exports
   d. all of the above
   e. none of the above