

OLLSCOIL NA HEIREANN, GAILLIMH
THE NATIONAL UNIVERSITY OF IRELAND, GALWAY

AUTUMN EXAMINATIONS 2002

MACROECONOMICS (EC 213)
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. Why does the AD curve slope downwards?
2. Outline a circular flow model which includes the public sector, the financial sector and the foreign sector – label the flows and identify the two different types.
3. What is macroeconomics? What is its primary concern?
4. Outline the effects of building a new railway from Cork to Dublin on National Income? How would you describe such a policy?
5. What is GDP? Is it a good measure of economic activity?
6. Define and give an example of demand management ?
7. Derive the AD curve.
8. What causes shifts in the IS curve?
9. Differentiate between nominal and real exchange rates.
10. What determines the natural rate of unemployment?

Part B (4 Long Questions)
Please answer any two questions

1.
 - (a) Derive the LM 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) What would happen to the trade balance, the real exchange rate and the nominal exchange rate in response to a fall in consumer confidence which induces consumers to spend less and save more?
 - (ii) Consider an economy described by the following equations:
$$Y = C + I + G + NX$$
$$Y = 5000$$
$$G = 1250$$
$$T = 1000$$
$$C = 250 + 0.75(Y - T)$$
$$I = 1000 - 50r$$
$$NX = 500 - 500\epsilon$$
$$r = r^* = 5$$
 - a. In this economy, solve for national saving, investment, the trade balance and the equilibrium exchange rate.
 - (iii) Are trade deficits always bad? Explain
3.
 - (a) Outline verbally and graphically the impact of a decrease in the rate of population growth on the growth of total output and the growth of output per person in the U.S. economy. Consider the effect both in the steady state and in the transition between steady states.
 - (b) In the Solow model, what determines the steady-state rate of growth of income per worker?
 - (c) How can policy makers influence a nation's saving rate?

4. (a) (i) What are the inside lag and the outside lag?
(ii) Which has the longer inside lag – monetary or fiscal policy?
(iii) Which has the longer outside lag? Why?
- (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 an example of the “shoe-leather costs” of inflation?
 - (a) a rise in the cost of primary raw materials
 - (b) an artificial rise in capital gains tax
 - (c) the need to take more trips to the bank
 - (d) all of the above
2. Hysteresis in the labour market occurs when:
 - (a) The media exaggerate the consequences of high unemployment
 - (b) The unemployment rate is larger than its natural rate
 - (c) The unemployment rate is larger than its natural rate
 - (d) The natural unemployment rate depends on the history of the actual unemployment rate
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. Which of the following will shift the IS curve?
 - (a) a change in government spending
 - (b) a change in taxes
 - (c) a change in consumer confidence
 - (d) all of the above
 - (e) none of the above
5. The LM curve tells us, for each interest rate, the level of output where
 - (a) the goods market is in equilibrium
 - (b) there is no inventory investment
 - (c) output is equal to demand
 - (d) all of the above
 - (e) none of the above

6. If the economy is on both the IS curve and the LM curve, then we know that
- (a) the goods market is in equilibrium
 - (b) the money market is in equilibrium
 - (c) a. and b. are true
 - (d) neither a nor b is true
7. "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.
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 golden rule level of capital refers to:
- (a) the level of capital that maximises output per worker
 - (b) the level of capital that maximises the standard of living
 - (c) the level of capital that maximises consumption per worker in the steady state
 - (d) all of the above.
10. Efficiency wage theory suggests that
- (a) workers will be paid more than their reservation wage
 - (b) productivity might drop if the wage rate is too high
 - (c) the government can only set tax rates at a certain level or people will prefer not to work
 - (d) unskilled workers will have a lower turnover rate than skilled workers