

Ollscoil na hÉireann, Gaillimh
National University of Ireland, Galway

Semester II Examinations 2004 / 2005

Exam Code(s)	2BC1, 2BC2, 2BC3, 2BC4, 2BC5, 3CL1, 4CL1, 1EM1, 1OA1,
Exam(s)	2 nd B.Comm., 2 nd B.Comm. (Language), 3 rd & 4 th B.Corp.Law, Erasmus, Occasional
Module Code(s)	EC213
Module(s)	Macroeconomics
Paper No.	1
Repeat Paper	
External Examiner(s)	Professor Vincent Munley
Internal Examiner(s)	Mr. Brendan Kennelly Dr. Ashley Piggins Ms. Marcella O'Shea
<u>Instructions:</u>	Answer any THREE questions.
Duration	3 hours
No. of Pages	3
Department(s)	ECONOMICS
Course Co-ordinator(s)	Dr. Ashley Piggins & Ms. Marcella O'Shea
<u>Requirements:</u>	
MCQ	
Handout	
Statistical Tables	
Graph Paper	
Log Graph Paper	
Other Material	

ECO 213

Macroeconomics

Answer any THREE questions from the following SIX.

Time allowed: THREE hours.

1.

(a). According to the neoclassical model, what determines the national income of a closed economy in the long-run? [10 marks]

(b). Using an appropriate diagram, explain what adjusts in this model to ensure that the demand for goods and services equals the supply? [20 marks]

(c). Imagine that the government decides to reduce taxes in an effort to increase consumer spending and investment. In this model, will this plan succeed in accomplishing both goals? [30 marks]

(d). Imagine that the Central Bank increases the rate of money growth. In this model, what will happen to output, inflation and the nominal interest rate? [30 marks]

(e). In this model, how do we reconcile the existence of unemployment with the assumption of market clearing? [10 marks]

2.

(a). Describe fully, using appropriate diagrams, Solow's model of economic growth. [80 marks]

(b). According to this model, what accounts for the growth in per-capita income that we observe when the economy is in steady-state? [20 marks]

3.

(a). Explain why the IS curve slopes downward and the LM curve slopes upward. [40 marks]

(b). What do we mean when we say that an increase in government spending "crowds-out" investment spending in the IS/LM model? Can the Central Bank eliminate the problem of "crowding-out"? [30 marks]

(c). Use the IS-LM model to identify the short-run effects of the following changes on national income, the interest rate, the price level, consumption, investment, and real money balances.

- (i) An increase in the money supply.
- (ii) A reduction in government spending.
- (iii) A cut in taxes.

[30 marks]

4.

(a). Explain how the IS curve and LM curve are derived in the Mundell-Fleming model of the open economy. [40 marks]

(b). In the Mundell-Fleming model assume that we operate in a fixed exchange rate regime. Explain how (i) expansionary fiscal policy, (ii) expansionary monetary policy, and (iii) protectionism affect national income and the exchange rate. [40 marks]

(c). How do your answers to (i), (ii) and (iii) in part (b) change if the exchange rate floats? [20 marks]

5.

(a). Describe fully either the "sticky wage" or "sticky price" model of aggregate supply. Explain how a short-run aggregate supply equation emerges from your chosen model. [40 marks]

(b). Show mathematically how the Phillips curve is related to aggregate supply. Using a diagram, show what happens to the Phillips curve when inflationary expectations change [40 marks]

(c). What is the "Lucas critique"?

[20 marks]

6.

(a). Explain what you understand by the "Ricardian Equivalence" proposition? [60 marks]

(b). Why might this proposition fail to hold in the real world?

[40 marks]