National University of Ireland, Galway
Ollscoil na hÉireann, Gaillimh

Summer Examinations 1998/99

EC213 Macroeconomics

2nd B. Comm., 2nd B. Comm. with language, 3rd B. Corp. Law

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INSTRUCTIONS

Time Allowed: **THREE hours**

Please answer:

20 out of 25 questions in Section A (total of 60 marks, 3 per question)

2 questions in Section B (total of 60 marks, 30 per question)

2 questions in Section C (total of 60 marks, 30 per question)

Marks total up to 180 (180 minutes = 3 hours), so that marks per question are a rough guide to how many minutes you should spend per question.

Section A

1. Explain the distinction between monetary and fiscal policy.
2. What is the Primary Current Account (of the Balance of Payments)?
3. What does it mean to say an individual is 'liquidity-constrained'?
4. Briefly explain the concept of present value.
5. Define Tobin's q.
6. What is 'consumption smoothing'?
7. How are deficits/surpluses in the private sector, the government sector, and for the nation as a whole, related?
8. What is the 'Solow Residual'?
9. 'Not all steady states are Golden Rule equilibria.' Explain.
10. What does it mean to say 'technological change is endogenous'?
11. Define the unemployment rate.
12. Distinguish between voluntary and involuntary unemployment.
13. What is structural unemployment?
14. Define the real effective exchange rate.
15. Explain what an 'open market operation' is.
16. What is the 'monetary base'?
17. Why might the LM curve shift?
18. In the IS/LM model, what does the 'financial integration line' mean?
19. What does the Phillips Curve show?
20. What does the Lucas Critique tend to undermine?
21. What does it mean to say that a particular policy is 'time-inconsistent'?
22. What is seigniorage?
23. Distinguish arbitrage from speculation.
24. State the uncovered interest rate parity condition.
25. Who is the President of the ECB?

Section B

(Answer 2 out of the following 5 questions.)

1. Show how a model of consumption smoothing predicts the response of an individual (a) to a temporary decrease in income and (b) to a permanent decrease in income.
2. Explain why some equilibria in the Solow growth model are better than others, and how policy might get to the best one.
3. Use the IS/LM framework to illustrate the effectiveness of monetary and fiscal policies under fixed and floating exchange rates.
4. Illustrate with a few examples, the role of expectations in macroeconomic policy.
5. Use a basic labour market model to distinguish between voluntary and involuntary unemployment.

Section C

(Answer 2 out of the following 5 questions.)

1. In what ways does modern macroeconomics draw upon microeconomic models?
2. What additions to the basic model of intertemporal consumption would make it more realistic?
3. Comment on the importance, or otherwise, of linkages between the real and monetary sectors of the economy.
4. What challenges does EMU present to macro policy makers?
5. What could or should be done to deal with the collapse of emerging market economies?