

OLLSCOIL NA hÉIREANN, GAILLIMH
NATIONAL UNIVERSITY OF IRELAND, GALWAY

SUMMER EXAMINATIONS 1999

ECONOMICS PAPER 1 (EC102)

Visiting Students (10A161)

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Time Allowed: THREE HOURS

N.B. There are specific instructions for each of the three sections. Please read them and the questions carefully. (Marks for each question are in parentheses.)

SECTION A SHORT PROBLEM

Look at the following table and answer the questions below. (20 marks)

	Annual change in GDP	Annual change in CPI	Most recent Unemployment rate	Annual change in the Trade balance (in billion \$)
Euro-11	2.4 %	0.8 %	10.6 %	+ 94.9
U. S.	4.3 %	1.7 %	4.4 %	-248
France	2.8 %	0.2 %	11.4 %	+27.2
Germany	2.6 %	0.2 %	10.5 %	+75.7
Britain	1.3 %	2.4 %	6.2 %	-34.5
Italy	1.2 %	1.5 %	12.3 %	+26
Ireland	7.8%	2.8 %	8 %	+1.7

(Sources: The Economist, March 13th, Irish Central Bank, Autumn 1998 report.)

- Which country has the highest inflation? Gives some reasons why this may be the case.
- Which country has the largest change in its trade balance? Speculate as to what may happen to the value of that country's currency.
- Do you see any relationship between the annual change in CPI and the most recent Unemployment rate for these countries? Explain your answer.

SECTION B: ESSAY QUESTIONS

Answer ONE of the following two questions. (60 marks)

- 1) The two main schools of thought in macroeconomics studied were Keynesian economics and Neo-classical economics.
 - a) What is the historical background behind the popularity of each school of thought?
 - b) Explain the differences between Keynesian economics and Neo-classical economics regarding their view on how a government can increase the wealth of a country.
 - c) What policy recommendations does each of these schools of thought propose?

- 2) As a member of the European Union and due to its joining the Euro on January 1, 1999, Ireland's economy is tied closely to Europe's.
 - a) What are the Maastricht criteria regarding budget deficits and debts?
 - b) What are the limitations for Ireland's fiscal and monetary policy given its EU membership and adoption of the Euro?
 - c) What difficulties for Ireland do you foresee because the U. K. has not adopted the Euro?
 - d) Given the limitations you have listed above, what policies are still available to the Irish government to influence the economy? Explain your answer.

SECTION C: MULTIPLE CHOICE QUESTIONS

Answer the following twenty (20) multiple choice questions. Each is worth one (1) point; there is no negative marking. Place your answers in the answer book provided; number each answer.

1. Demand management policies
 - a. were advocated by Keynes
 - b. refer to boosting the economy during recessions and slowing the economy during booms
 - c. are always and everywhere effective
 - d. both (a) and (b)
 - e. both (a) and (c)
2. An increase in the price of foreign goods will cause
 - a. the aggregate demand curve to shift down and to the left.
 - b. the aggregate demand curve to shift up and to the right.
 - c. the aggregate supply curve to shift up and to the left.
 - d. the aggregate supply curve to shift down and to the right.
 - e. a movement along the aggregate demand curve.
3. An increase in the interest rate will cause
 - a. the aggregate demand curve to shift down and to the left.
 - b. the aggregate demand curve to shift up and to the right.
 - c. the aggregate supply curve to shift up and to the left.
 - d. the aggregate supply curve to shift down and to the right.
 - e. a movement along the aggregate demand curve.
4. Under the Maastricht Criteria, countries wishing to join the Euro must do which of the following:
 - a. promise never to borrow money for deficits
 - b. always run a budget surplus
 - c. keep the size of any deficit less than 3%
 - d. keep the size of any deficit less than 1%
 - e. none of the above
5. In a small open economy like Ireland, which of the following limits the effects of fiscal policy:
 - a. the high amount of exports
 - b. the large number of tourists entering the country
 - c. the high prices of houses
 - d. the low amount of imports
 - e. the high propensity to spend income on imports

6. Expansionary Fiscal Policy is used to
 - a. lower the price level
 - b. lower the amount of national income
 - c. increase the amount of exports
 - d. increase the money supply
 - e. increase Aggregate Demand and GDP
7. Looking at labour supply, unemployment occurs because
 - a. the wage is too high.
 - b. social welfare benefits are too high.
 - c. social welfare benefits are too low.
 - d. the wage is too low.
 - e. both (b) and (d)
8. Looking at labour demand, unemployment occurs because
 - a. the wage is too high.
 - b. social benefits are too low.
 - c. the wage is too low.
 - d. the minimum wage is set too low.
 - e. there are no efficiency wages.
9. The following is not an example of frictional unemployment:
 - a. a person who is between jobs.
 - b. a university graduate who is just entering the workforce.
 - c. a hotel worker who does not work after the tourist season.
 - d. both (a) and (b)
 - e. none of the above
10. High government deficits will cause
 - a. the government to raise interest rates to finance its deficit.
 - b. consumption by households to fall.
 - c. consumption by households to rise.
 - d. an increase in aggregate demand.
 - e. a fall in unemployment.
11. The reserve requirement refers to
 - a. the amount of foreign reserves held by the Central Bank.
 - b. the fraction of deposits a bank must keep on reserve.
 - c. the requirement for exchange rate controls
 - d. the interest rate a bank charges customers.
 - e. the interest rate the Central Bank charges other banks.
12. An increase in the money supply will effect the economy in the short term by,
 - a. increasing consumption and raising the interest rate.
 - b. increasing consumption and lowering investment.
 - c. decreasing consumption and lowering investment.
 - d. increasing consumption and raising investment.
 - e. decreasing consumption and lowering investment.

13. The Central Bank has all of the following tasks except
 - a. determining the money supply.
 - b. regulating banks.
 - c. setting fiscal policy.
 - d. acting as a lender to the government.
 - e. acting as a lender of last resort to other banks.
14. Which of the following is not a cause of inflation?
 - a. Demand Pull
 - b. Cost Push
 - c. Too much money chasing too few goods.
 - d. Speculators
 - e. Expectations
15. Which of the following will cause long run aggregate supply to shift outwards and to the right?
 - a. an increase in taxes
 - b. a decrease in the labour force
 - c. an increase in the capital in an economy
 - d. an increase in government spending
 - e. both (b) and (d)
16. Ireland's monetary policy is limited because
 - a. there are a high degree of exports.
 - b. the government is currently running a surplus.
 - c. Ireland is currently in a fixed exchange rate regime.
 - d. the Central Bank is politically independent.
 - e. there are no limitations to monetary policy.
17. The current account measures
 - a. all monetary transactions between the home country and the rest of the world.
 - b. the amount of all visible and invisible trade.
 - c. the amount of inflows and outflows of capital or assets.
 - d. the amount of the government's budget deficit or surplus.
 - e. the current level of prices in the economy.
18. Money supply in Ireland
 - a. is varied with the level of GDP.
 - b. is fixed and determined by the government.
 - c. varies depending on the politicians in power.
 - d. is fixed and determined by the Central Bank.
 - e. is determined by the level of foreign investment.

19. Which of the following is not a reason that people hold money?
- a. They need to buy goods and services (transactions demand).
 - b. They are cautious about the future (precautionary demand).
 - c. They are nervous about investing (investment demand).
 - d. The opportunity cost is not too low (speculative demand).
 - e. They have a preference for liquidity.
20. One of the reasons given for high European unemployment is
- a. hysteresis: the economies are accustomed to high unemployment.
 - b. greater labour market inflexibility in Europe.
 - c. stronger European trade unions.
 - d. more generous social benefits in Europe.
 - e. all of the above