



National University of Ireland, Galway
Ollscoil na hÉireann, Gaillimh

SUMMER EXAMINATIONS 2000

ECONOMICS II - EC 872

Diploma in Business Studies

Faculty of Commerce

Dámh na Tráchtála

Dr. Jeff Round

Professor M. P. Cuddy

Dr. Jennifer Stewart

Time Allowed: 2 Hours

There are two parts to this exam. Total 100 marks. Answer all questions in the booklet provided. Do NOT answer questions in point form.

In Part A, answer **20 of the 25** short-answer questions (3 marks for each question for a total of 60 marks). Only the first twenty questions answered will be marked.

In Part B, answer **1 out of the 2** questions (40 marks).

PART A. Answer 20 of the following 25 questions. Each question is worth 3 marks.

1. Draw the circular flow diagram which we have used as the basis of our model of the economy.
2. Why do we expect a negative relationship between investment and the interest rate?
3. Define present value.
4. How does risk affect the level of investment?
5. What is included in M1 and M3?
6. What are the two costs in the model of optimal cash management?
7. What are three costs of inflation?
8. What are efficiency wages?
9. The natural rate of unemployment is composed of two types of unemployment. Name and define these two components.
10. Define the three time-lags of fiscal policy.
11. What is Ricardian Equivalence?
12. What is crowding out?
13. If the government wants to stabilize its debt, under what condition will it be possible for it to run a deficit?
14. What are the two conditions concerning a country's level of debt and deficit that must be met in order for the country to enter European Monetary Union?
15. Why does a more stable economy lead to higher growth rates?
16. What are three problems with forecasting?
17. Define comparative advantage.
18. In our basic, static model of labour migration who gains and who loses?
19. Why would firms engage in foreign direct investment?
20. Define purchasing power parity.

21. What are two possible reasons for why the amplitude of the business cycle has diminished?
22. What are three reasons for expecting gains from trade?
23. What are three explanations for why wages may be sticky?
24. Explain the difference between a futures contract and a forward contract.
25. Explain the J-curve.

PART B. Choose 1 of the 2 following questions to answer. The question is worth 40 marks.

1. What is the impact on the goods and services market, the money market, and the foreign exchange market of an increase in government expenditures when monetary authorities:
 - a) keep the money supply constant and,
 - b) expand the money supply to keep the interest rate constant.Does it matter under what exchange rate regime the country is operating?
2. Ireland has a growth rate of 7.5% and a debt to GDP ratio of 75%.
 - a) What is the primary budget deficit to GDP ratio that keeps the debt to GDP ratio constant when the real interest rate is 2% and seigniorage is restricted?
 - b) What is the condition that stabilizes the debt to GDP ratio when there is inflation and seigniorage is allowed?
 - c) If Ireland did not want to change its primary budget deficit from the level in Part a), but still wanted to decrease the debt to GDP ratio to 60%, how much money would have to be printed?
 - d) Why would Ireland not want to follow the strategy in Part c)?