**Econ 201 Exam #3a Winter, 2014 Professor Twomey** Student Name: \_\_\_\_\_\_\_\_\_\_

**Part II**. Answer on the back of the last sheet if you need more space.

1.Identify the following with a sentence or at most two: (16 points)

1. Stagflation
2. Cyclically Adjusted Budget Balance

C) Recessionary Gap

1. Autonomous Change in Aggregate Spending

2. (13 points) Explain and illustrate on an AS-AD graph the short run and long run impacts on the economy of a decline in Aggregate Demand, in a situation where the government does nothing to intervene.

- Now suppose the government wished to engage in countercyclical fiscal policy, to combat the effects of the decline in Aggregate Demand. Give an example of a policy action the government could use, and identify on the above graph where that would leave the economy.

3a. (10 points) What was the main idea behind the Laffer Curve, and what policy does it lead to? What is our textbook’s verdict on President Reagan’s experience with it?

b. The standard explanation for the difference between the short run AS curve and the long run AS curve relates to rigidities. Identify and explain real briefly three such rigidities.

4. (10 points) Consider an economy with an MPC of 0.75, that is suffering some cyclical unemployment. Suppose the government decides to increase its level of spending by $200 billion.

In a simple multiplier model, by how much will this change real GDP? Illustrate the change on an AD-AS graph. (It would be a useful simplification to assume that prices are constant, because the AS is flat).

Now consider a situation where an economy has some cyclical employment, and the government decides to increase both its level of expenditures and its level of taxes by the same amount, thereby not altering its budget surplus/deficit. Would the resulting change in income in this new situation be larger or smaller than what happens in the above situation? Explain briefly – no graphs nor formulas needed.

The median on this exam was 68; the high was 93.

**Econ 201 Exam #3b Winter, 2014 Professor Twomey** Student Name: \_\_\_\_\_\_\_\_\_\_\_\_\_

**Part II**. Answer on the back of the last sheet if you need more space.

1. Identify the following with a sentence or at most two:
2. Automatic Stabilizer
3. Supply Shock

C) Paradox of thrift

1. Marginal Propensity to Save
2. (10 points) How will planned investment spending change as the following events occur? Explain briefly.
3. The interest rate falls as a result of Federal Reserve policy
4. The U.S. Environmental Protection Agency decrees that corporations must upgrade or replace their machinery in order to reduce their emissions of sulfur dioxide.
5. U.M.-D engineers develop a new, lightweight, efficient engine for automobiles.
6. (13 points) Explain and illustrate on an AS-AD graph the short run and long run impacts on the economy of a increase in Aggregate Demand, in a situation where the government does nothing to intervene.

Now suppose the government wished to engage in countercyclical fiscal policy, to combat the effects of the increase in Aggregate Demand. Give an example of a policy action the government could use, and identify on the above graph where that would leave the economy.

4a. (10 points) Consider a situation of an economy where the MPC is 2/3, and for some reason business investment falls by $400 billion. By how much will equilibrium income change?

b. The textbook (and class lecture) discussed several valid criticisms of discretionary fiscal policy. Identify two that the text considers valid, and explain them briefly.

The median on this exam was 67; the high was 83.

**Econ 201 Exam #3 Fall, 2013 Professor Twomey** Student Name: \_\_\_\_\_\_\_\_\_\_\_\_\_

**Part II** Answer on these sheets, using the back of the last sheet if you need space.

1. Identify the following with a sentence or at most two: (16 points)
2. Automatic stabilizers
3. Cyclically adjusted budget balances
4. Stagflation
5. Indexing to the CPI
6. (10 points) What was the main idea behind the Laffer Curve, and what policy does it lead to? What is our textbook’s verdict on President Reagan’s experience with it?
7. (10 points) How did or would the following affect the current public debt and implicit liabilities of the U.S. government?
8. The age at which retired persons can receive full social Security benefits is raised by two years
9. Social Security benefits for future retirees are limited to those with low incomes.
10. In 2003, Congress passed and President Bush signd the Medicare Modernization Act, which provides seniors and individuals with disabilities with a prescription drug benefit (reduction in price). Some of the benefits took effect immediately, but others will begin later on.
11. The decision is made that, because costs of health care are rising faster than the overall inflation rate, that the annual increases in Social Security benefits should be linked to those health care costs.
12. (13 points) Explain and illustrate on an AS-AD graph the short run and long run impacts on the economy of a decline in Aggregate Demand, in a situation where the government does nothing to intervene.

Now suppose the government wished to engage in countercyclical fiscal policy, to combat the effects of the decline in Aggregate Demand. Give an example of a policy action the government could use, and identify on the above graph where that would leave the economy.

The median on this exam was ; the high was .

**Econ 201 Exam #3 Fall, 2012** Professor Twomey Student Name

**Part** II. Answer on these sheets, using the back of the last sheet if you need more space.

1. Identify the following with a sentence or at most two: (16 points)
2. Automatic stabilizer
3. Monetary base
4. Bank holiday
5. Output gap
6. (6 points) What is the basic idea behind the Laffer Curve? (Graph optional). In the US, when was this analysis most popular? What is the primary criticism of those who reject the policy that is associated with it?
7. (5 points) What are the three defining roles of Money? Explain each one real briefly
8. (11 points) Explain whether the following government policies will affect the aggregate demand curve or the short-term aggregate supply curve, and in which direction (left or right) they will move that curve: (graph optional)
9. The government reduces the minimum wage
10. The government increases transfers to poor families with dependent children
11. With a goal of reducing the budget deficit, the government announces that households will have to pay much higher taxes next year
12. The government reduces military spending

5a. (11 points) Let’s consider the national debt, and government deficits that have increased it, as our government pursued (discretionary) countercyclical fiscal policy. The textbook (and classroom lecture) discussed a few valid economic arguments against using fiscal policy that way. Identify and explain briefly two.

b. Discussions about the debt are made more difficult by some measurement issues. The textbook refers to two of them: ‘public debt’ (debt held by the public) and implicit liabilities. What do these terms mean, and do they make the debt seem bigger or smaller?

c. Does an economist’s verdict on the desirability of countercyclical policy depend on whether the initial problem was a supply shock or a demand shock? Explain your answer very briefly.

The median on this exam was 64; the high was 88.

**Econ 201 Exam #3 Fall, 2011** Professor Twomey Student Name

Part II (Use the back of the last sheet if you need more space**.**

1. Identify the following with a sentence or at most two:
2. Cyclically adjusted balanced budget
3. Output gap
4. Haircut (when speaking of national debt)
5. Investment tax credit
6. (10 points) In the accompanying graph we see the situation of country Z.
7. Is Z facing a recessionary or an inflationary gap?
8. Which type of fiscal policy does Z need, expansionary or contractionary?
9. Give an example of some government action that would achieve this result.
10. Illustrate on the graph the new situation in Z, after that policy has been implemented.
11. 10 points) Consider an economy initially at full employment equilibrium. Then for some reason (e.g., an increase in Government spending), aggregate demand increases. Explain and illustrate with a graph the impact of the increase in AD. Distinguish between the short run effects and the long run effects.

(13 points) a. As a response to growing unemployment in 2008, our government approved a relief package that gave about $145 billion to US consumers in the form of a tax rebate (check to us In the mail). If the MPC was about 0.7, what was the size of the eventual impact on the US economy of that rebate? Illustrate this impact on an AS-AD graph, being sure to label the axes.

b. How will the following affect planned investment expenditure? Explain real briefly.

 i. The Federal Reserve (Central Bank) lowers the interest rate

ii. There is a rise in the expected rate of growth of real GDP

iii. UM-D engineers design a more efficient engine for cars.

The median on this exam was 68; the high was 91.

**Econ 201 Exam #3 Winter, 2011** Professor Twomey Student Name: \_\_\_\_\_\_\_\_\_\_

**Part II.** (Use the back of the last page if you need more space).

1. Identify the following with a sentence or at most two: (16 points)
2. Supply shock
3. Automatic stabilizer
4. Autonomous change in aggregate spending
5. Cyclically adjusted budget balance
6. (10 points) What are the three ways the Fed can control the supply of money?

b. Suppose the Fed causes the money supply to increase. Explain and illustrate with graphs how that will affect interest rates, private sector investment, and real GDP.

1. (10 points) Suppose that the economy is characterized by the following consumption function:

C = 7,000 + 0.75 x GDP. Now, suppose that, as a result of an election, business leaders are more optimistic about the economy, and decide to increase their investments by $200 billion. What will be the impact of this decision on national GDP? Illustrate your answer with an AS-AD graph.

1. (13 points) What are the three defining functions (or roles), of money?

b. What is the basic formula of the monetarists, and what important economic lesson do they draw from it?

c. What is meant by the Laffer curve, and what important economic prediction is derived from it? (graph optional)

The median on this exam was 66; the high was 84

**Econ 201 Exam #3a Fall, 2010** Prof. Twomey Student Name: \_\_\_\_\_\_\_\_\_\_\_\_

**Part II** (If you need more paper, please request this of the professor)

1. Identify the following with a sentence or at most two: (16 points)
2. Marginal propensity to save
3. Sticky wages
4. Cyclically adjusted budget balance
5. Housing Bubble
6. Consider the situation where, after an election, a new Congress comes in that wants to balance the budget by reducing government expenditures. Suppose that this reduction was $200 billion. Calculate the impact on real GDP of that cut in spending, using the standard Keynesian analysis; suppose the MPC is 0.9, and that prices can be considered fixed. Illustrate your answer with a graph. (10 points)
7. a) (13 points) What is the major policy proposal that is related to economist Arthur Laffer, and the curve that bears his name? (graph not needed)

b) It has been argued that the Laffer curve was not given a fair chance in the 1980s, when President Reagan followed its policy. Identify two examples of factors that might not have allowed it to work.

c) On a different theme, what are the three major roles that define or identify money?

1. (10 points) In the accompanying diagram, the economy is initially

at long run equilibrium at point E1, when an oil shock shifts

the short run aggregate supply curve to SRAS2.

1. What happens to prices and output in the short run?

What is this phenomenon known as?

1. Suppose the government wanted to use fiscal or monetary

policies to address the effects of the supply shock. If the

decision was made to address the change in GDP, what

policies would be chosen? Illustrate on a graph.

* If the decision was made to address the change in prices,

what policies would be chosen. Illustrate on a different graph

1. Why do supply shocks present a dilemma for policy makers?

The median on this exam was 67; the high was 94

**Econ 201 Exam #3b. Fall, 2010** Professor Twomey

**Part II**  If you need more paper, please ask the professor.

1. Identify the following with a sentence or at most two: (16 points)
2. Fiat money
3. Implicit liabilities
4. Wealth effect
5. Stagflation
6. (8 points) What is the major policy proposal that is related to economist Arthur Laffer, and the curve that bears his name?

(graph not necessary)

b) It has been argued that the Laffer curve was not given a fair chance in the 1980s, when President Reagan followed its policy. Identify two examples of factors that might not have allowed it to work.

1. (5 points) There are several criticisms of discretionary fiscal policy. Identify and explain briefly two.
2. (10 points) Suppose that by some miracle peace were to break out around the world, leading government leaders – including ours – to decide that we can safely reduce military expenditures. What would be the standard Keynesian analysis of the size of the effect on real GDP of a decline in government expenditures of $300 billion, if the MPC is 0.8 and prices are assumed constant? Illustrate your answer with a graph.
3. (10 points) Suppose the economy is in short-run macroeconomic

equilibrium at point E1 in the diagram.

1. Is the economy facing an inflationary or deflationary gap?
2. What policies might the government implement that might bring

the economy back to long run macroeconomic equilibrium? Explain,

and illustrate with a separate graph.

1. If the government did not intervene to close this gap, would the

economy return to long-run equilibrium? Explain.

The median on this exam was 54; the high was 95.

**Econ 201  Exam #3**   Summer, 2010   Professor Twomey   Student Name: \_\_\_\_\_\_\_\_\_\_

The exam consists of two parts: multiple choice and short answers. The multiple choice questions are worth three points apiece, and the weight of the other questions is indicated below. Please answer on these sheets. For the multiple choice questions, circle the letter that corresponds to your answer. Please ask for clarification of any unclear question. Time: one hour – we will resume lecture at 1:00 pm. Good luck.

**Part II.** Use the back of the last sheet if you need more space.

Identify the following with a sentence or at most two: (16 points)

Cyclically adjusted budget balance

Open Market Committee

Recessionary gap.

Laffer Curve

(10 points) a. Consider an economy that is characterized by the following consumption function, C = 400 + 0.8 \* Yd, where C is the value of consumption, and Yd is the amount of disposable income. If business investment were to increase by $100 billion, by how much would equilibrium income change? In this situation, which of the AS or AD curves would move, and in which direction?

b.  In determining whether or not a financial instrument ought to be considered part of the quantity of money, economists have traditionally looked at three defining roles, or characteristics of money. Identify and explain each of them briefly.

(10 points) In each of the following cases, in the short run, the particular event will cause a move of one of AS or AD, and a movement along the other curve. Ignore long run considerations. For each case, draw a graph of the before and after case, clearly indicating which curve has moved.

Events overseas lead to a reduction in the price that US producers pay for steel, a major  commodity in domestic production.

An increase in the quantity of money by the Federal Reserve increases the amount of money that financial institutions are able to lend, thus lowering interest rates.

Greater union activity leads to higher nominal wages.

A generalized, continual increase in prices in the stock market leads consumers to feel wealthier.

(13 points) a. Given an initial situation of long and short run equilibrium, we know that when aggregate demand drops (for whatever reason), the country’s government has two options: 1) it can do nothing, and let market forces lead the economy back to equilibrium; 2) it can engage in countercyclical policy – of which that of interest to us now is fiscal policy.

Explain and illustrate with two separate AS-AD graphs these two scenarios. Indicate the initial equilibrium, the temporary equilibrium after AD drops, and the new equilibrium after the adjustments happen. In each case, explain what variables adjust, and in what way (up or down), to cause the move of the curves you are describing.

b. The idea of countercyclical fiscal policy is attractive to many economists. Nevertheless, there are several limitations, or criticisms of countercyclical policy, identified in our text, as well as in class. Describe each briefly.

The median on this exam was 71; the high was 85.

**Econ 201  Exam #3b**   Winter, 2010   Professor Twomey  Student Name: \_\_\_\_\_\_\_\_\_\_\_

If any question is unclear, please ask for clarification. The multiple choice questions are valued three points apiece. Please circle the letter corresponding to the answer you select. Time: the entire class. Good luck!

Part II. Answer on these sheets, using the back of the last sheet if needed. Points per question are indicated.

Identify the following with a sentence or at most two: (16 points)

Implicit liabilities

MPS

Stagflation

Discount rate

(10 points). Suppose the country’s monetary authority wanted to reduce the money supply. What are its three main tools of affecting the quantity of money, and how would the authorities have to change each one in order to obtain a reduction in money?

(10 points)  What is meant by discretionary fiscal policy, and what are its goals? The textbook and class discussion touched on several reasons why discretionary fiscal policy might not be a good idea. Identify two and discuss them briefly.

(13 points). The economy depicted in the accompanying

Graph [p 349 of KW]  is at equilibrium at point E1].

Is the economy facing an inflationary or a deflationary gap?

What policies can the government implement that

might bring the economy back to long-run equilibrium?

Illustrate your answer on a separate graph.

If the government did not intervene to close this gap,

would the economy return to long-run equilibrium?

**Econ 201  Exam #3a**   Winter, 2010 Professor Twomey   Student Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

If any question is unclear, please ask for clarification. The multiple choice questions are valued three points apiece. Please circle the letter corresponding to the answer you select. Time: the entire class. Good luck!

Part II. Answer on these sheets. Points per question are indicated.

Identify the following with a sentence or at most two: (16 points)

Cyclically adjusted budget balance

b. Stabilization policy

c. Autonomous change in aggregate spending

d. Federal funds rate

2. (10 points). What is meant by discretionary fiscal policy, and what are its goals? The textbook and class discussion touched on several reasons why discretionary fiscal policy might not be a good idea. Identify two such criticisms, and discuss them briefly.

(13 points) In the accompanying diagram, [fro p. 349 in KW] the economy is

in long-run macroeconomic equilibrium at point E1. Then

an oil shock shifts the short-run aggregate supply curve to

SRAS2.

How do prices and aggregate output change in the short

run as a result of the oil shock?

What fiscal or monetary policies can the government

use to address the effects of the supply shock?

Illustrate the effects of these policies on another graph.

Why do supply shocks present a dilemma for government

policy makers – one that is felt to be more serious

than demand shocks?

Econ 201  **Exam #3**   Summer, 2009 Professor Twomey    Student Name: \_\_\_\_\_\_\_\_\_\_\_\_\_

As before, the exam consists of two parts; multiple choice, and short answer/graphs. For the multiple choice questions, please circle the letter corresponding to your answer. The multiple choice questions are weighted three points apiece, and the weights of the other questions are indicated. Please ask for clarification for any question that is not clear. Time: 75 minutes. Good luck!

II. 1. Identify the following with a sentence or at most two (16 points):

Financial intermediary

Medium of exchange

Fisher Effect

Automatic Stabilizer

 2.  (10 points) Assume the economy is in short-run macroeconomic

equilibrium at point E1 in the diagram at right. Based on the diagram, answer the following:

Is the economy facing an inflationary or a   recessionary gap? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

What policies can the government implement to bring the economy back to long-run equilibrium?

Illustrate your answer on that graph.

If the government decided not to intervene to close this gap, what would happen in the economy that

would eventually bring it back to long run equilibrium?  Explain and illustrate with a separate graph.

3 (10 points). Sallie Mae is a quasi-governmental agency that packages student loans into pools of loans and sells shares of these pools to investors as Sallie Mae bonds.

What is this process called? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

What effect will it have on investors compared to the situations in which they (the investors) could only buy and sell individual student loans?

C. Will the existence of Sallie Mae, and these actions increase or decrease the ability of students to get loans? Explain.

D. Suppose that a severe recession hits and, as a consequence, many graduating seniors cannot get jobs, and therefore default on their student loans. What effect will this have on Sallie Mae bonds?What will be the effect of this on the availability of student loans?

4 (13 points).  Consider a situation with stable prices, where the marginal propensity to consume is 0.75, and private sector investment spending increases by $200 billion. What will be the ultimate effect of this new spending on real GDP? Illustrate your answer with an AS-AD graph.

Consider now a situation in which the required reserve ratio is 0.8, and the Federal Reserve engages in an open market purchase of $300 billion. What will be the ultimate impact of this action on the money supply?

How will that change in the money supply affect Aggregate Demand? Illustrate your answer with a graph.

The high on this exam was  93. The median was 55.

**[The following exams were based on a different textbook.]**

**Econ 201a                 Final Exam                    Winter, 2008**                 Prof. Twomey

Please PRINT your name on the BACK of the last sheet. Answer on these sheets, using the backsides if you need space. Please ask for clarification if the question is unclear. Be sure to label each axis on your graphs. Time: 90 minutes.

Identify the following with a sentence or at most two:

1. Cyclical asymmetry
2. Economies of scale
3. Equation of exchange
4. Prime rate
5. Bretton Woods system

2a. What are the three tools available to the Federal Reserve to affect the money supply? For each tool, what would the Fed have to do with it to decrease the money supply?

b. Explain, and illustrate with three parallel graphs, how a decrease in the money supply would affect national output and prices in the short run.

3. How will the following affect inflation and unemployment, at least in the short run? Illustrate each answer with a graph – either the Phillips curve or an AS-AD graph.

a. The price of oil rises

b. Our government spends less on domestic programs

Aging of the US workforce leads to declines in our workers’ productivity

d.  Better technology makes our exports look more attractive to overseas buyers.

4a. Suppose that there is an increase in aggregate demand. Explain and illustrate on an AS-AD graph how that will affect prices and output in the short run and the long run.

b. For the US economy in the second half of the twentieth century, what have been the three or four most important factors increase our standard of living, and what is their relative order of importance?

5a.  Draw a graph of the determination of the exchange rate of the Japanese Yen in New York (make sure you label each axis). On that graph, illustrate which curve is affected by U.S. exports, and U.S. imports.

Will the following lead to an appreciation or a depreciation of the dollar? Illustrate each answer with a separate graph.

Inflation falls in Japan.

The US puts tariffs on our imports from Japan

Suppose the next presidential election in the US was troubled by the issue of vote counting, as occurred in 2000. Would this lead to an appreciation or depreciation of the dollar?

1. The US Federal Reserve lowers our interest rates.

The high on this exam was 98; the median was 70.

Econ 201b                 Final Exam                    Winter, 2008                 Prof. Twomey

Please PRINT your name on the BACK of the last sheet. Answer on these sheets, using the backsides if you need space. Please ask for clarification if the question is unclear. Be sure to label each axis on your graphs. Time: 90 minutes.

1. Identify the following with a sentence or at most two:

Labor force participation rate

b.   Velocity of money

Exchange controls

Federal funds rate

Purchasing power parity theory

2. What are the three tools available to the Federal Reserve to affect the money supply? For each tool, what would the Fed have to do to increase the money supply?

b. Explain and illustrate with three parallel graphs, how an increase in the money supply would affect the short run levels of national output and prices.

3. How will the following affect inflation and unemployment, at least in the short run? Illustrate each answer with a graph – either the Phillips curve or an AS-AD graph.

a. The price of oil declines

b. The government spends more on domestic programs

Improvements in education increase workers’ productivity

d.  Bad weather overseas leads foreign countries to buy more US agricultural products.

4a. Suppose that there is a decline in aggregate demand. Explain and illustrate on an AS-AD graph how that decline will affect prices and output in the short run and the long run.

b. The textbook speaks of “The New Economy.” What is meant by that term? What factors are suggested as causes of the increase in productivity?

5a.  Draw a graph of the determination of the exchange rate of the euro in New York (make sure you label each axis). On that graph, illustrate which curve is affected by U.S. exports, and U.S. imports.

Will the following lead to an appreciation or a depreciation of the dollar? Illustrate each answer with a separate graph.

Inflation rises in Europe.

Europe puts tariffs on imports from the US

Dispute over the EU’s constitution threatens a break-up of the European Union

e. The US Federal Reserve lowers our interest rates

The high on this exam was 88; the median was 62

Econ 201a                   Exam #3                 Winter, 2007                 Professor Twomey

Please PRINT your name on the BACK of the LAST sheet. Answer on these sheets, using the flip sides if necessary. The questions are equally weighted. Please ask for clarification if any question is unclear. Be sure to label all the axis on your graphs. Time: one hour, or whatever you need.

Please identify the following with a sentence or at most two:

Inflation targeting

B Purchasing power parity theory

Tight monetary policy

Federal Funds rate

New Economy

2a.  The standard textbook story is that there are three tools for Federal Reserve monetary policy. Identify and describe each one briefly, indicating what would have to be done in each case to increase the money supply .

2b. Suppose that the Fed increased the money supply. Explain how this would affect prices and output in the national economy, illustrating your answer with the appropriate graphs.

3a. Our textbook has a brief discussion of whether or not economic growth is beneficial and should be pursued. Identify and discuss briefly two reasons why growth might not be beneficial.

b. Discuss the short run, and the long run impact on the economy’s level of prices and output if the government does something (monetary or fiscal  policy) that causes aggregate demand to increase. Illustrate your answer with a graph.

4a. Write the monetarists’ equation of exchange, identifying each of the components.

b. Identify whether each of the following will cause a movement along the Phillips curve or a shift of the entire curve. Illustrate each answer with a different graph.

The central bank decreases the money supply.

The price of oil rises in international markets

iii. Technological improvements in US production leads foreigners to buy more of our exports.

5. Consider the market for Japanese Yen (Y) in New York. Draw a graph of the determination of the equilibrium exchange rate between the US dollar and the yen, being sure to label the axis.

Will each of the following lead to an appreciation or a depreciation of the US dollar? Explain briefly, illustrating each answer with a separate graph.

There is more inflation in the U.S.

The Japanese Central Bank raises its interest rate, attracting US capital flows

Due to improved technology in the US, we do not buy as many Japanese products as before.

d. A worsening in political relations between Japan and China leads US investors to desire to lower their investments in Japan.

The median on this exam was  . The high was

Econ 201b              Exam #3                      Winter, 2007                  Professor Twomey

Please PRINT your name on the BACK of the LAST sheet. Answer on these sheets, using the flip sides if necessary. The questions are equally weighted. Please ask for clarification if any question is unclear. Time: one hour, or whatever you need.

Please identify the following with a sentence or at most two:

Currency intervention

Cyclical asymmetry

Infrastructure

Prime rate

Bretton Woods system

2a. Our textbook has an extensive discussion of the factors that have led to long term growth in the US economy.  In addition to simple population growth, identify three other factors that have led to growth, and give a rough ordering of their empirical importance.

Suppose the US government decided to lower spending. Explain how will that affect US prices and output, in the SHORT RUN  and in the LONG RUN. Illustrate your answer with a graph.

In an assumed situation where the required reserve ratio is 0.05 (and no excess reserves and no cash), what happens to the US money supply if the FED engages in open market purchases worth $400 million?

 Explain and illustrate with (one or more) graph(s) how the change in the money supply that you described above, will affect US prices and outputs in the short run.

4a. Draw a graph of the Laffer curve, identifying both axis. What important policy lesson did Laffer draw from this analysis?

b. Will the following lead to a sift of the Phillips Curve, or a movement along the Phillips curve? Explain and illustrate each answer with a graph.

US personal income taxes fall

the Fed raises the money supply

iii. The world price of oil falls.

Consider the market for euros (€) in the US. Draw a graph of the determination of the equilibrium exchange rate between the US dollar and the Euro, being sure to label the axis.

Will the following lead to an appreciation of a depreciation of the US dollar? Explain and illustrate each answer with a graph.

The US central bank lowers its interest rate.

For international political reasons the European Union places extra tariffs on their imports of goods from the US

President Bush has a heart attack

The US government decides to engage in an expensive new program of space exploration.

The median on this exam was   . The high was

Econ 201a                  Exam #3               Fall, 2006                            Professor Twomey

Please PRINT your name on the BACK of the LAST SHEET. Use the backs of these sheets if you need more space.  Be sure to label each axis on the graphs. The number of points for each questions is indicated. Please ask for clarification if a question is unclear.  Time: the entire class.  Good luck!

Identify the following with a sentence or at most two: (20 points)

a) Managed float

b)  Discount rate

 Labor force participation rate

 Official reserves

e)  Inflation targeting

(15 points) Consider trade between Mexico and Europe, and suppose Mexico has a fixed exchange rate. If Mexico has a balance of payments deficit, identify and explain briefly two policies that Mexico’s government could enact-not including devaluation-that would remedy that deficit. Draw a graph of Mexico’s market for foreign exchange, indicating the situation with the deficit, and without it.

10 points) Draw a graph of the Laffer curve (being sure to label each axis!) and state what important policy recommendation is derived from it.

(15 points) Suppose the US had a required reserve ratio of 1/6. Now, suppose the Federal Reserve buys $400 million of government bonds, on the open market. By how much will that change the money supply, and in what direction?

In terms of the change in the money supply you mentioned above, illustrate on three parallel graphs what will happen to interest rates, investment, prices and real GDP.

(10 points) Write the equation of exchange at the heart of monetarism, and identify its components. Our textbook has a short and concise description of the differences between monetarists and Keynesians, on the important issue of what are the sources of instability in the macroeconomy. What is that difference?

(15 points) Use graphical analysis (AS-AD or Phillips curve) to show how each of the following would affect the economy (of the US), first in the short run and then in the long run. Assume that the economy is initially operating at its full-employment level of output, that prices and wages are eventually flexible both upward and downward-but not initially, and that there is no counteracting fiscal or monetary policy.

Disagreements inside OPEC lead to a decline in the world price of oil.

The Federal reserve increases the money supply significantly

(15 points) Draw a graph of the equilibrium exchange rate between the U.S. dollar ($) and the Korean won (W), identifying the role of US exports and imports in that graph. Assume that there is a system of flexible exchange rates between the U.S. and Korea. Would each of the following lead to a depreciation or appreciation of the U.S. dollar? Explain briefly

Because Korea joins the WTO and lowers its tariffs, its imports increase significantly

Military expenditures by US lead us to have significantly more inflation than that of Korea.

c.   Due to conflicts with North Korea, South Korea declares martial law.

Econ 201bb                  Exam #3               Fall, 2006                            Professor Twomey

Please PRINT your name on the BACK of the LAST SHEET. Use the backs of these sheets if you need more space.  Be sure to label each axis on your graphs. The number of points for each questions is indicated. Please ask for clarification if a question is unclear.  Time: the entire class.  Good luck!

1. Identify the following with a sentence or at most two: (20 points)

a) Bretton Woods System

b)  Prime rate

 Human capital

 Current account deficit

e)  Cyclical asymmetry

1. (15 points) Consider trade between Mexico and Europe, and suppose Mexico has a fixed exchange rate. If Mexico has a balance of payments deficit, identify and explain briefly two policies that Mexico’s government could enact-not including devaluation-that would remedy that deficit. Draw a graph of Mexico’s market for foreign exchange, indicating the situation with the deficit, and without it.

(10 points) Draw a graph of the Laffer curve (being sure to label each axis!) and state what important policy recommendation is derived from it.

(15 points) Suppose the US had a required reserve ratio of 5%. Now, suppose the Federal Reserve sells $300 million of government bonds, on the open market. By how much will that change the money supply, and in what direction?

In terms of the change in the money supply you mentioned above, illustrate on three parallel graphs what will happen to interest rates, investment, prices and real GDP.

(10 points) Write the equation of exchange at the heart of monetarism, and identify its components.

 Our textbook has a short and concise description of the differences between monetarists and Keynesians, on the important issue of what are the sources of instability in the macroeconomy. What is that difference?

15 points) Use graphical analysis (AS-AD, or Phillips curve) to show how each of the following would affect the economy (of the US), first in the short run and then in the long run. Assume that the economy is initially operating at it full-employment level of output, that prices and wages are eventually flexible both upward and downward, and that there is no counteracting fiscal or monetary policy.

A severe hurricane hits Louisiana, disrupting

Construction spending on new homes rises dramatically, greatly increasing total U.S. investment spending.

(15 points) Draw a graph of the equilibrium exchange rate between the U.S. dollar ($) and the Korean won (W), identifying the role of US exports and imports in that graph. Assume that there is a system of flexible exchange rates between the U.S. and Korea. Would each of the following lead to a depreciation or appreciation of the U.S. dollar?

The U.S. unilaterally reduces tariffs on Korean products

Korean workers go on strike, raising wages and prices in their country.

c. Korean businesses invest in US car companies.

Econ 201a         Exam #3               Winter, 2005     Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these sheets, using the flip sides if necessary. Questions are equally weighted. Be sure to label the axes on the graphs. If any question is unclear, please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Learning by doing

b) Prime rate

c) Balance on capital account

d) Inflation targeting

e) Legal tender

2. Suppose the government misjudges the natural rate to unemployment to be much lower

than it actually is, and then undertakes expansionary fiscal and monetary policies to try

 to achieve that lower rate. Use the concept of the shor-run Phillips Curve to explain

why these policies might at first succeed.  Use the concept of the long-run Phillips

Curve to explain the long-run outcome of these policies.

b. Identify (no graphs needed) three different causes of negative supply shocks.

3a. What are the two major components of the demand for money, and identify a

macroeconomic variable on which each depends.

b. What is meant by cyclical asymmetry, and why might monetary policy suffer from it?

c. Explain and show on two or three graphs how a contraction in the money supply will

affect the money market, prices and output.

4. A country's real GDP can grow because they have more people. What is the other general

reason for growth in a country's real GDP?

Besides population growth, describe three of the different factors that will cause lead

to long term growth in real GDP. For each of them, identify something the government

could do to encourage its contribution to growth.

5a. Consider the market for euros (€) in the United States. Draw a graph of the determination

 of the equilibrium exchange rate, being sure to label correctly both axes. Identify

further which curve (supply or demand) is affected by US exports, which curve by US

imports, and which curve by capital flows from the US to Europe.

How will the following affect the equilibrium exchange rate? Explain briefly,

illustrating each answer with a graph.

b. There is inflation in the U.S.

c. The European Central Bank raises its interest rate.

d. European scientific advance results in more US demand for European exports.

e. Quarrels develop between France and Germany, leading people to think that the euro

will no be used any more.

The median on this exam was 66; the high was 88

Econ 201b                 Exam #3      Winter, 2005        Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these sheets, using the flip sides if necessary. Questions are equally weighted. Be sure to label the axes on the graphs. If any question is unclear, please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Adjustable peg system

b) Prime rate

c) Equation of Exchange

d) Purchasing power parity

e) Balance on capital account

2a. Suppose the Fed engages in open market purchases worth $500 million, in a context

where the required reserve ratio is 0.1, banks keep no extra reserves, and people keep

no cash. After the entire money multiplier process has worked itself out, by how much,

and in what direction, will the nation's money supply change?

b. Corresponding to your answer in part a, what will be the change in the banking

system's balance sheets?

c. As a result of this open market purchase, what will happen to the interest rate, and

to the economy's aggregate demand?  Explain briefly, and illustrate with a pair of graphs.

3a. Explain the effects of the following events on the national economy, and illustrate

your answers using Phillips curves. Specify whether you are speaking of a movement along

the curve, or a shift of the curve and then indicate direction with an arrow.

-The government decides to spend more money on health care for retired people

-Foreign countries start buying more of our  exports, due to improvements in quality

- The Fed engages in expansionary monetary policy

-The price of oil rises on international markets

b. Identify three factors that affect the long term growth of labor productivity. Very

roughly, what has been their relative contribution to growth in the US during the last

half century?

4a. Draw a graph of the Laffer curve, and explain what important policy prescription is

based on it.

b. Our textbook argues that monetary policy affects the economy through both domestic and

 international effects the latter is called the net export effect. The Fed is currently

 engaged in tight monetary policy. Explain graphs optional how this tight monetary policy

 will affect net exports.

5a. Consider the market for euros (E€) in the United States. Draw a graph of the

determination of the equilibrium exchange rate, being sure to label correctly both axes.

 Identify further which curve (supply or demand) is affected by US exports,  which

curve by US imports, and which curve by capital flows from the US to Europe.

How will the following affect the equilibrium exchange rate? Explain briefly,

illustrating each answer with a graph.

b. There is inflation in the United  States

c. A resolution of political problems in the United States leads Europeans to have

more confidence in the health of our economy.

d. European scientific advances make their exports more attractive to US consumers.

e. The European Central Bank lowers its interest rate

The median on this exam was 52; the high was 76.

Econ 201a     Exam #3    Winter, 2004          Professor Twomey

Please PRINT your name on the back of the last sheet. Indicate if you are

in the 1:25 class. Answer on these sheets, using the flip sides if

necessary. Questions are equally weighted. Be sure to label the axes on

the graphs. If any question is unclear, please ask for clarification.

Good luck!

1. Identify the following with a sentence or at most two:

     a)   Purchasing power parity

     b)   New Economy

     c)   As good as gold

     d)   Learning by doing

     e)   Strategic trade policy

2a. What is meant by the term Laffer curve? Explain and illustrate with a

graph.  What important economic policy is pushed by proponents of this

analysis?

b. One of the most important new concepts in macroeconomics during the

last two decades is the idea of adverse aggregate supply shocks. Give two

examples of causes of such shocks, and show on a graph how they would move

the aggregate supply curve.

3.  Suppose country Zeta initially imports

coats without any tariffs, but then an election brings to power someone

who applies a tariff to those coats.  Explain, and illustrate with a

graph, how the tariff will affect the production, consumption, imports,

and tax revenues in country Zeta.

3b.  One of the arguments that is proposed in favor of tariffs is the

"infant industry" argument. Explain this position, illustrating your

answer with a graph.  --There are many objections to the infant industry

argument. Identify and briefly explain two of them.

4a. By definition, there are two ways a country can grow by an increase in

labor, or an increase in labor productivity. Over the last several

decades, which of these has been more important in the U.S.? Identify

three factors that have been important in increasing U.S. labor

productivity, and indicate which has been most important, according to the

estimates presented in our text. With which of them is the term "New

Economy" most closely related? Explain briefly.

b. What is meant by the Phillips curve? Illustrate your

 answer with a graph, being sure to label the axes.

From some arbitrary point on the Phillips curve, indicate whether the

following will cause the economy to move along the curve, or to move the

entire curve. Illustrate each answer.

  a) An increase in defense expenditures

  b) A decrease in the price of oil

c) A decrease in the money supply.

5. Draw a graph of the determination of the exchange rate between the U.S.

dollar and the Swedish Crown (K), being sure the label the two axes. Which

curve is affect by U.S. exports, and which curve by U.S. imports?

a. In a floating exchange rate system, will the following lead to an

appreciation or a depreciation of the dollar? Explain briefly,

illustrating each answer with a graph.

  There is an increase in U.S. interest rates

  Due to a government education campaign, Swedish workers become more

productive, especially in their production of export goods.

  There is inflation in Sweden

b. Suppose a country with a fixed exchange rate has a balance of payments

deficit. What are two actions or policies its government could pursue in

order to remedy the balance of payments deficit? Be specific, and explain

how and why these actions would eliminate the deficit. Graphs optional.

The median on this exam was 72; the high was 94.

Econ 201b    Exam #3    Winter, 2004       Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these

sheets, using the flip sides if necessary. Questions are equally weighted.

Be sure to label the axes on the graphs. If any question is unclear,

please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

     a)   Stagflation

     b)   Smoot Hawley

     c)   Official reserve

     d)   Human Capital

     e)   VER

2a. Suppose an initial situation where the U.S. imports cellular phones

free of taxes, and then the government approves a tariff on imported

cellular phones. Explain and show on a graph how that will affect the

domestic production and consumption, and our imports of cellular phones.

b. Why might some U.S. firms strongly support trade liberalization, while

others favor protectionism.

  Why might some U.S. labor unions support trade liberalization, while

other U.S. unions strongly oppose it.

3a. Although the average annual growth rate for the U.S. economy was

strong in the 1960s, it declined during the 1970s and 1980s. Then it

surged in the late 1990s. What reasons were given for the decline in the

'70s and '80s, and then what reasons are given for its increase in the

late 1990s? Explain your answer for each period separately.

b. The analysis associated with the Laffer curve argues that taxes have a

negative effect on the supply side of the economy. For the perspective of

either workers or managers, give two examples of channels that explain why

higher taxes would lead to less supply.

4a.  Macroeconomists distinguish between the short run, and long run,

effects of changes in aggregate demand, such as might be caused by an

increase in government spending. Explain and illustrate on a graph (either

AS-AD or Phillips curve), what would be the short run and long run effects

of an assumed increase in spending, and discuss what causes the economy to

move from the short run effect to the long run effect.

b. What would be two examples of shocks to aggregate supply? Illustrate

with a graph.

5. Draw a graph of the determination of the equilibrium exchange rate

between the dollar and the yen. On that graph, indicate which curve is

affect by U.S. exports, and which by U.S. imports.

How will each of the following affect the equilibrium exchange rate?

Explain each answer briefly, illustrating each one with a graph.

     a)   There is new technology in the Japanese export industry

     b)   The U.S. has high inflation

     c)   U.S. interest rates are increased by the Federal Reserve

     d)  The Japanese Prime Minister is voted out of office, throwing the

country into political difficulty

Finally, Suppose Mexico had fixed exchange rates with the U.S., and that

Mexico had a balance of payments deficit with us. Identify two things the

Mexican government could do in order to regain balance of payments

equilibrium. Explain each one briefly graph optional.

The median on this exam was 66; the high was 100.

Econ 201  Exam #3  Fall, 2003         Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these

sheets, using the flip sides if necessary. Note that the questions have

different weights. Be sure to label the axes on the graphs. If any

question is unclear, please ask for clarification.  Good luck!

1 (20 points). Identify the following with a sentence or at most two:

a) Stagflation

b) Bretton Woods System

c) Labor Force Participation Rate

d) Smoot Hawley

e) Purchasing Power Parity Theory

2) (10 points) What is meant by the term New Economy? Relate each of the

following to the New Economy:

- The rate of productivity growth

- Information technology

- Increasing returns

- Network effects

3 (10 points). Identify and illustrate with a graph the Laffer curve. How

does it relate to supply side economics? Why is determining the economy's

location on the curve so important in assessing tax policy?

4 (10 points). The research by Denison, discussed in our text, emphasized

several factors leading to economic growth of the U.S. during the

twentieth century. Identify three factors, and, for each one, suggest

something the government could do that would increase that factor's

contribution to the country's growth.

5 (10 points) Draw a graph of the Phillips curve, being sure to label the

axis. Will each of the following lead to move along the curve, or a shift

of the entire curve? Illustrate each answer with a separate graph.

- The Federal Reserve engages in contractionary monetary

   policy

- A bad harvest in Russia leads them to buy more of our wheat

- A massive electrical blackout leaves substantial parts of

   the U.S. without power for a week.

6 (15 points). Draw a graph of the determination of the

 equilibrium exchange rate between the U.S. dollar and the Japanese Yen

(Y). On that graph, indicate which curve is affected by US exports, and

which by US imports. Assuming a flexible exchange rate, do the following

lead to an appreciation or a depreciation of the US dollar, with respect

to the Yen? Illustrate each answer with a graph.

- Japan develops new skills in computing, reducing some US exports.

- The US central bank lowers its interest rates

- For internal, political reasons, Japan enters into

 a period of reduced economic growth.

7 (10 points). Tariffs have always been an important policy tool for

affecting an economy. Explain, and illustrate on a graph, the major short

run impacts of moving from a situation of free trade in steel to one where

there are tariffs on steel.

8 (15 points). In its analysis of government deficit spending, the

textbook distinguishes between false concerns and substantive issues.

Among the latter is crowding out. Explain briefly what is meant by

crowding out.

Identify and explain briefly one other substantive (or valid) issue

The median on this exam was 49; the high was 87.

Econ 201       Exam #3     Winter, 2003                   Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these

sheets, using the flip sides if necessary. Questions are equally weighted.

Be sure to label the axes on the graphs. If any question is unclear,

please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) World Trade Organization

b) Potential GDP

c) Smoot Hawley

d) Bretton Woods

e) Needs Tested Spending

2.  President Bush is currently proposing a decline in tax rates. There

are two schools of thought among economists as to how these tax cuts would

affect the nation's economy, typically called Keynesian (or Demand) side,

and supply side. Describe each of these approaches, illustrating each

analyses with a different graph.

3a. Suppose that the U.S. currently imports electronic cameras without any

tariffs or other controls. What would economic theory suggest would be the

major effects on our domestic production, consumption, and imports of

those cameras, if we were to impose a tariff on those cameras? Explain and

illustrate your answer with a graph.

b. What is meant by the infant industry argument? How does it relate to

the situation and graph in the answer above? Would this be a good argument

for tariffs on cameras imported into the US? Explain briefly.

4. What is meant by the "Phillips curve." Define it, illustrating it with

a graph. Will the following events lead to a movement along the curve, or

a shift of the curve in the U.S.? Explain each answer, illustrating them

with a pair of points; one for "before" and one point for "after."

A. The government increases defense expenditures

b. The Federal Reserve raises interest rates

c. An increasing fear of terrorism leads businesses to reduce their

investments

d. There is a discovery of new raw materials in Canada, leading to an

increase in growth of that country's economy.

5. Draw a graph illustrating the determination of the equilibrium exchange

rate between the British pound (L) and the US dollar ($). On that graph,

identify a major U.S. macroeconomic variable that determines each curve.

Will each of the following lead to a depreciation or an appreciation of

the US dollar? Explain and illustrate each answer with a separate graph.

a) There is an increase in interest rates in Britain

b) There is inflation in the U.S.

c) Technological change makes US products much more attractive abroad

d) The British Prime Minister has a sudden heart attack, creating

insecurity about their domestic political situation.

The median on this exam was 57, the high was 92

Econ 201        Exam #3a     Fall, 2002                   Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these

sheets, using the flip sides if necessary. Questions are equally weighted.

Be sure to label the axes on the graphs. If any question is unclear,

please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Okun's Law

b) Kennedy Round

c) Interest Rate Parity

d) Rent seeking

e) Smoot Hawley

2a. What are the three major components of a country's balance of payments

account, and on what major macroeceonomic variables do they depend?

b. Explain briefly what is meant by the term comparative advantage.

c. In terms of U.S. trade policy, what is the role of our membership in

the GATT/WTO?

d. Explain briefly what the Euro is, and why it was created.

3a (13 points). Suppose the government increases spending on defense

items. Show on parallel graphs (AS-AD, and Phillips curve) how this will

affect output, unemployment, prices and inflation.

b (7 points). What is meant by non-tariff barriers? Give two examples, for

the U.S. or elsewhere.

4. Suppose the United States initially had a policy of free trade, but

then an election happened and the new president got approval for a policy

of protectionism. Explain and show on a graph how a tariff would affect

our production, consumption, imports and so on. One of the arguments for a

tariff is called the infant industry argument. Explain and show on a graph

what is meant by this argument. It is the case that the U.S. has virtually

stopped producing some products that we now entirely import. This is

certainly true for lots of toys, but suppose it is true for cameras. Would

the infant industry argument be valid for the U.S. and cameras? Explain

your answer.

5. Consider the determination of the exchange rate between the U.S. and

Great Britain. The British currency is the pound, written as (L)

a. Draw a graph of the market for dollars in London, being sure to label

the axes. On the graph, indicate what curve is affected by U.S. exports,

and which by U.S. imports. Will the following lead to a revaluation or a

devaluation of the dollar? Explain briefly and illustrate each answer with

a graph.

b. There is inflation in Britain.

c. The U.S. makes some scientific discoveries, resulting in our exports

being more attractive in overseas markets.

d. Interest rates in Britain rise.

e. The U.S. president has a heart attack, leading to widespread fear about

our economic policies and leadership.

The median on this exam was 67; the high was 96

Econ 201   Exam #3b                Fall, 2002  Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these

sheets, using the flip sides if necessary. Questions are equally weighted.

Be sure to label the axes on the graphs. If any question is unclear,

please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Purchasing Power Parity

b) Dynamic comparative advantage

c) APEC

d) Tokyo Round

e) U.S. official reserves

2a. Explain briefly what is meant by the idea of comparative advantage.

b. The textbook illustrates the idea of comparative advantage by

discussing U.S. exports of high-tech goods, like airplanes.  Very simply,

why do we export airplanes?

c. One of the arguments against comparative advantage is called the

(anti-) dumping. What is meant by dumping?

d. What is meant by rent seeking?  Explain briefly its role in the debate

about comparative advantage?

3a (10 points). Suppose the U.S. government reduces the amount it spends

on military activities. On parallel graphs, (AS-AD and Phillips curve),

show how this will affect prices and inflation, output and unemployment.

b. What is meant by the GATT (and/or) the WTO? What is its role in the

world economy?

c. What was the goal in the creation of the Euro?

4. Consider the case of a country like Ghana, which when it was a colony

did not use any tariffs it had free trade. When countries like Ghana

obtained independence, they frequently adopted protectionist policies.

Explain and illustrate on a graph what would be the effects on Ghana's

production, imports, consumption, and so on, of the adoption of

protectionist policies. One of the arguments that was used by countries

like Ghana for their protectionism is called the infant industry argument.

Explain and illustrate this argument on another graph. What is meant by

the term non-tariff barrier? Give two examples, from any country.

3a. Consider the determination of the exchange rate between the United

States and Russia. (For convenience, the sign of the Russian currency is

R). Illustrate the market determination of the exchange rate for the US

dollar in Russia, being careful to label the axes. On the graph, indicate

which curve is affected by Russian exports, and Russian imports Will each

of the following result in an appreciation or depreciation of the dollar?

Explain and illustrate each one with a graph.

B. There is inflation in Russia.

c. Interest rates are raised in the U.S.

d. There is a bad harvest in Russia, and they need to import more food

e. There is political controversy in Russia, leading to the threat of a

coup and change of government.

The median on this exam was 71; the high was 88

Econ 201   Exam #3a Fall, 2001                   Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these

sheets, using the flip sides if necessary. Questions are equally weighted.

Be sure to label the axes on the graphs. If any question is unclear,

please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Purchasing power parity

b) Automatic stabilizers

c) Dumping

d) Non-tariff barrier

e) Balance of Trade

2a. Suppose that a poor country like India initially imports toys without

any tariffs. Then a law is passed imposing a tariff on these imports. What

will be the economic impacts of this law? Explain and illustrate your

answer with a graph.

b. The principle of comparative advantage says that India should engage in

free trade. One argument that has been proposed in India and elsewhere for

protectionism is called the infant industry argument. Explain this, and

illustrate it with a graph.

3.  In its discussion of the effects of fiscal policy, the textbook

distinguishes between supply side and demand side effects.  Explain these

two effects and illustrate each one with a graph. President Bush is

currently negotiating a "stimulus package" of fiscal policies with

Congress. In the discussions amongst the politicians, does it matter which

economic theory they support? Explain your answer.

4. If the Fed raises the money supply, how will that affect interest

rates? Explain and illustrate on a graph.

As a result of that movement in interest rates, other changes will occur

in the economy. Identify and explain how each of the following economic

variables will change:

a) Businesses' purchases of new capital equipment

b) Households' purchases of new cars and houses

c) Foreigners purchases of U.S.-made goods and services

d) Americans' purchases of Canadian-produced goods and services

5.  Draw a graph illustrating the determination of the equilibrium

exchange rate between the French Franc (FF) and the U.S. dollar, being

sure to label the axes. Which curve-- supply or demand is affected by U.S.

exports, and which by U.S. imports?

b. Would inflation in France lead to an appreciation or a depreciation of

the dollar? Explain and illustrate on a separate graph.

c. Suppose interest rates in the U.S. are lowered, due to actions taken by

the Fed.  Would that lead to an appreciation or a depreciation of the

dollar? Explain and illustrate on a separate graph.

d. Finally, suppose that there are significant technological advances in

France's export industry, due to improvements in their educational system.

Would that lead to an appreciation or a depreciation of the dollar?

Explain and illustrate on a separate graph.

The median on this exam was 63; the high was 90

Econ 201 Exam #3b Fall, 2001 Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these

sheets, using the flip sides if necessary. Questions are equally weighted.

Be sure to label the axes on the graphs. If any question is unclear,

please ask for a clarification.  Good luck!

 1. Identify the following with a sentence or at most two: a)

Interest rate parity b) Inflationary gap c) Rent seeking d) Learning by

doing e) Needs-tested spending

2. Classify each of the following as discretionary fiscal policy or

automatic fiscal policy or neither. Explain briefly.

b) A cut in funding for NASA during an expansion

b) The fact that tax revenues fall during a recession

c) An increase in the public education budget

d) A reduction in expenditures for unemployment benefits

during an expansion

The president is currently negotiating with the Congress a set of fiscal

policies that is supposed to provide stimulus to the economy. One item

will be a tax cut. There are two interpretations about how a tax cut will

affect the macro-economy; supply side and demand side. Explain each

position, and illustrate each with a graph.

3a. Identify and explain real briefly the three main components of the

balance of payments. On what major macroeconomic variable does each

depend?

b. Our textbook argues that under the current flexible (or floating)

exchange rate system, the exchange rate of the U.S. dollar has been

volatile. What is the reason for this volatility?

4a. The U.S. currently has (relatively) free trade in steel, which we

import. Some people recommend that we impose a tariff on these imports.

Explain the major effects of the imposition of a tariff, illustrating your

answer with a graph.

b. Under the GATT/WTO, what has been the general trend in the level of

tariffs in the U.S.?

c. What is meant by the term non-tariff barrier?

5a. Draw a graph illustrating the determination of the equilibrium

exchange rate between the British pound ( ) and the U.S. dollar, being

sure to label the axes. Which curve-- supply or demand is affected by U.S.

exports, and which by U.S. imports?

b. Would inflation in the United States lead to an appreciation or a

depreciation of the dollar? Explain and illustrate on a separate graph.

c. Suppose interest rates in the U.S. are raised, due to actions taken by

the Fed.  Would that lead to an appreciation or a depreciation of the

dollar? Explain and illustrate on a separate graph.

d. Finally, suppose that there are significant technological advances in

Britain's export industry, due to improvements in their educational

system. Would that lead to an appreciation or a depreciation of the

dollar? Explain and illustrate on a separate graph.

The median on this exam was 60. The high was 84.

Econ 201 Exam #3aWinter, 2002 Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these

sheets, using the flip sides if necessary. Questions are equally weighted. Be sure to label the axes on

the graphs. If any question is unclear, please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Humphrey Hawkins

b) Automatic stabilizer

c) Official settlements account

d) Non-tariff barriers

e) Stagflation

2a. Suppose a third world country such as Thailand initially imports

automobiles, but then a new government decides to try to encourage Thai

industrialization, by the use of a tariff. Explain and illustrate on a

graph the effects of the tariff on Thai production, consumption, imports,

etc.

b. Our textbook gives what might be called qualified support to one

justification for the use of tariffs, namely the infant industry argument.

What is meant by that argument?  A graph would be helpful, but is not

necessary.

3a.  What is meant by the term countercyclical fiscal policy? (Graph not

necessary)

b) One of the important considerations about countercyclical policy is

that it might have supply side effects. The debate is further complicated

in that these supply side effects might be favorable or unfavorable.

Explain and illustrate with one or two graphs the favorable and

unfavorable effects, identifying for each one a reason why the curve might

move in the way you have just described.

4a. Suppose the Fed were to engage in expansionary monetary policy.

Explain and illustrate on parallel graphs the effects of this policy, one

graph using the AS-AD analysis, and the other using the Phillips curve.

b. Suppose the U.S. government increases its expenditures on highways and

bridges by $100 billion next year.  Explain the effect that this

expenditure would have on:

  i. Autonomous expenditure

  ii. Aggregate Demand

  iii. Real GDP

  iv. Needs based spending

  v. The government's budget surplus

5a. Consider the market for U.S. dollars in London, England where the

currency is the pound (Lœ). Draw a graph of the market determination of

the equilibrium exchange rate, being sure to label the axes. For both supply

and demand, indicate two items of the British balance of payments that

affect each curve.

b. What would be the impact of inflation in the U.S. on the equilibrium

exchange rate. Does the dollar appreciate or depreciate? Explain and

illustrate with a graph.

c. Suppose instead that the Bank of England (their central bank) were to

raise their interest rate. How would that affect the equilibrium exchange

rate? Explain and illustrate with a graph.

d. Finally suppose that the British Prime Minister were to have a heart

attack. In the uncertainty that would immediately follow this, what would

we expect to happen to the exchange rate? Explain and illustrate with yet

another graph.

The median on this exam was 58; the high was 92

Econ 201    Exam #3b         inter, 2002                 Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these sheets, using the flip sides if necessary. Questions are equally weighted. Be sure to label the axes on the graphs. If any question is unclear, please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Smoot Hawley

b) Induced taxes

c) Needs tested spending

d) Dumping

e) Learning by doing

2. Suppose the Federal Reserve fears that a recession will occur in the

near future. Following countercyclical policy, what change in monetary

policy will help avoid that recession? Explain the effect of the Fed's

policy on:

i. Interest rates

ii. The quantity of money

iii. Investment

iv. The foreign exchange value of the dollar (does it appreciate or

depreciate?)

v. Aggregate demand

3a. The United States government recently announced a tariff on imported

steel. Explain and show on a graph what will be the effects of that tariff

on US production, consumption, and imports of steel.

b. One of the arguments in favor of tariffs is the so-called infant

industry argument. Explain what is meant by this argument; a graph is

optional.  In your opinion, does the infant industry argument justify the

administration's recent increase in steel tariffs?  Explain.

4a. Suppose the Federal Government increases its expenditures, and you are

asked how that will affect the macroeconomy.

i. What is the standard analysis of how this will affect the Aggregate

Demand curve? Illustrate with a graph.

ii. The analysis of the supply side effects says it can go either way.

Give one argument for a rightward shift of the AS curve, and one for a

leftward shift.

b. How would the following be expected to affect either (or both) AS and

AD? Graphs are optional.

i. An increase in nominal wages (above the change in productivity)

ii. A decrease in the money supply

iii. A decrease in the price of oil

iv. An increase in US exports to Asia

5a. Consider the market for US dollars in Mexico, whose currency is the

Peso. Draw a graph of the determination of the equilibrium exchange rate,

indicating the role of US exports, imports, and capital flows, and of

course being sure to label the axes.

b. If there is inflation in Mexico, will that lead to an appreciation of a

depreciation of the US dollar? Explain, illustrating with a graph.

c. Suppose the Mexican government imposes a tariff on US imports. Will

that lead to an appreciation or depreciation of the dollar? Explain,

illustrating with a graph.

d. Finally, suppose there is great uncertainty in Mexico, because of fear

of a coup against the government. Will that lead to an appreciation or

depreciation of the dollar? Explain, illustrating with a graph.

The median on this exam was 72; the high was 87

Econ 201    Exam #3a   Fall, 2001                   Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these

sheets, using the flip sides if necessary. Questions are equally

weighted. Be sure to label the axes on the graphs. If any question is

unclear, please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Purchasing power parity

b) Automatic stabilizers

c) Dumping

d) Non-tariff barrier

e) Balance of Trade

2a. Suppose that a poor country like India initially imports toys

without any tariffs. Then a law is passed imposing a tariff on these

imports. What will be the economic impacts of this law? Explain and

illustrate your answer with a graph.

b. The principle of comparative advantage says that India should

engage in free trade. One argument that has been proposed in India and

elsewhere for protectionism is called the infant industry argument.

Explain this, and illustrate it with a graph.

3.  In its discussion of the effects of fiscal policy, the textbook

distinguishes between supply side and demand side effects.  Explain

these two effects and illustrate each one with a graph. President Bush

is currently negotiating a "stimulus package" of fiscal policies with

Congress. In the discussions amongst the politicians, does it matter

which economic theory they support? Explain your answer.

4. If the Fed raises the money supply, how will that affect interest

rates? Explain and illustrate on a graph.

As a result of that movement in interest rates, other changes will

occur in the economy. Identify and explain how each of the following

economic variables will change:

a) Businesses' purchases of new capital equipment

b) Households' purchases of new cars and houses

c) Foreigners purchases of U.S.-made goods and services

d) Americans' purchases of Canadian-produced goods and services

5a.  Draw a graph illustrating the determination of the equilibrium

exchange rate between the French Franc (FF) and the U.S. dollar, being

sure to label the axes. Which curve-- supply or demand is affected by

U.S. exports, and which by U.S. imports?

b. Would inflation in France lead to an appreciation or a depreciation

of the dollar? Explain and illustrate on a separate graph.

c. Suppose interest rates in the U.S. are lowered, due to actions

taken by the Fed.  Would that lead to an appreciation or a

depreciation of the dollar? Explain and illustrate on a separate

graph.

d. Finally, suppose that there are significant technological advances

in France's export industry, due to improvements in their educational

system. Would that lead to an appreciation or a depreciation of the

dollar? Explain and illustrate on a separate graph.

The median on this exam was 63; the high was 90

Econ 201  Exam #3b         Fall, 2001                   Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these

sheets, using the flip sides if necessary. Questions are equally

weighted. Be sure to label the axes on the graphs. If any question is

unclear, please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Interest rate parity

b) Inflationary gap

c) Rent seeking

d) Learning by doing

e) Needs-tested spending

2. Classify each of the following as discretionary fiscal policy or

automatic fiscal policy or neither. Explain briefly.

a) A cut in funding for NASA during an expansion

b) The fact that tax revenues fall during a recession

c) An increase in the public education budget

d) A reduction in expenditures for unemployment benefits during an

expansion

The president is currently negotiating with the Congress a set of

fiscal policies that is supposed to provide stimulus to the economy.

One item will be a tax cut. There are two interpretations about how a

tax cut will affect the macro-economy; supply side and demand side.

Explain each position, and illustrate each with a graph.

3a. Identify and explain real briefly the three main components of the

balance of payments. On what major macroeconomic variable does each

depend?

b. Our textbook argues that under the current flexible (or floating)

exchange rate system, the exchange rate of the U.S. dollar has been

volatile. What is the reason for this volatility?

4a. The U.S. currently has (relatively) free trade in steel, which we

import. Some people recommend that we impose a tariff on these

imports. Explain the major effects of the imposition of a tariff,

illustrating your answer with a graph.

b. Under the GATT/WTO, what has been the general trend in the level of

tariffs in the U.S.?

c. What is meant by the term non-tariff barrier?

5a. Draw a graph illustrating the determination of the equilibrium

exchange rate between the British pound (Lœ) and the U.S. dollar,

being sure to label the axes.

Which curve-- supply or demand is affected by U.S. exports, and which

by U.S. imports?

b. Would inflation in the United States lead to an appreciation or a

depreciation of the dollar? Explain and illustrate on a separate

graph.

c. Suppose interest rates in the U.S. are raised, due to actions taken

by the Fed.  Would that lead to an appreciation or a depreciation of

the dollar? Explain and illustrate on a separate graph.

d. Finally, suppose that there are significant technological advances

in Britain's export industry, due to improvements in their educational

system. Would that lead to an appreciation or a depreciation of the

dollar? Explain and illustrate on a separate graph.

The median on this exam was 60. The high was 84.

Econ 201     Exam #3   Winter, 2001           Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these

sheets, using the flip sides if necessary. Questions are equally weighted.

Be sure to label the axes on the graphs. If any question is unclear,

please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Non-tariff barrier

b) Underemployment

c) Bretton Woods System

d) Purchasing power parity

e) Most Favored Nation

2a. Suppose a poor country like India imposed a tariff on imported shoes.

Explain and show on a graph how the tariff would affect production,

consumption, imports, and so on. b. One of the standard arguments in favor

of tariffs is the so-called infant industry argument. Explain this

argument, illustrating it on a separate graph.

3. According to the widely cited study of Denison, what were the major

sources of growth in the United States during the twentieth century? One

aspect of the discussion about economic growth during the 1980s was the

so-called productivity slowdown. What is meant by this term? Identify and

explain briefly two government policies that were recommended to counter

this slowdown. The more recent buzzword is the "New Economy." Explain what

is meant by this term, and identify one factor that has been proposed to

explain it.

4. Consider the case of a country with a fixed exchange rate and a balance

of payments deficit. Draw a graph of the determination of the country's

exchange rate, illustrating the balance of payments deficit. One thing the

authorities could do to respond to the deficit would be to devalue.

Identify and explain three other policies that might be attempted to

counteract the balance of payments deficit.

5a. One key area in the discussions about the growth and development of

third world countries is the role of their governments in that process.

Analysts can easily distinguish between positive and negative actions of

governments in encouraging growth.  Identify and explain briefly two

positive things that third world governments can do to stimulate growth

and development.  Identify and explain briefly two negative things that

those governments have done, which impede growth and development. Finally,

the textbook noted that one area in which the governments of industrially

advanced countries can help third world countries relates to the so-called

third world debt crisis. What is meant by that term, and what might the

governments do that would help alleviate the problem.

The median on this exam was 70; the high was 100

Econ 201                                Exam #3                     Fall, 2000                   Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these

sheets, using the flip sides if necessary. Questions are equally weighted.

Be sure to label the axes on the graphs. If any question is unclear,

please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Purchasing power parity

b) Managed float

c) New Economy

d) Voluntary export restriction

e) Brain drain

2a. What is meant by the term "productivity slowdown?"

b. Identify and explain very briefly three different government policies

that could be use to counteract this.

c. Some people think that economic

growth is not necessarily a good thing. Identify and explain briefly two

examples that would be cited by people in the anti-growth school.

3.  During the 1970s and 1980s most third world countries utilized a fixed

exchange rate system. If some country found itself with a balance of

payments deficit, what would be three policies it might enact to resolve

the problem. During that time, several important third world countries

sufferred what is called a "debt crisis." What is meant by this term, and

what were three options for resolving the crisis?

4a. Suppose the United States produces, but also imports wool coats.

Assume an initial situation of free trade. Draw a graph, and explain what

would be the impact on U.S. production, consumption and imports if the

U.S. were to raise tariffs on imported coats.

b.  One new area of debate

about tariffs is called "strategic trade policy." What is meant by this

term? What would be a product which is typically mentioned in the debate?

c. When our textbook talks about the cost of protection, it argues that

the annual cost of jobs saved by tariffs is much higher than the average

income of a worker. What is the simplest explanation of this finding?

5. Consider the market for the european currency the euro ( ) in New York.

Draw a graph of the determination of the equilibrium exchange rate for the

euro, being sure to label the axes. Identify which curves are affected by

U.S. exports, imports, and outward capital flows. Will the following lead

to an appreciation or a depreciation of the Euro? Explain and illustrate

each answer with a graph.

- Inflation in the U.S.

- Interest rates rise in Europe

- Political uncertainty makes investors lose faith in the european

economy.

- The United States has greater technological change in sectors producing

products we used to import from Europe.

The median on this exam was 74; the high was 100

Econ 201  Exam #3  Winter, 2000   Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these

sheets, using the flip sides if necessary. Questions are equally weighted.

Be sure to label the axes on the graphs. If any question is unclear,

please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Gold standard

b) Non-tariff barriers

c) GATT

d) Strategic Trade policy

e) Bretton Woods System

2. Consider the market for German Marks (M) in New York. Draw a graph

illustrating the determination of equilibrium exchange rate. In terms of

that graph, which of the major elements of the U.S. balance of payments

account affect supply, and which affect demand? Will inflation in Germany

lead to an appreciation or depreciation of the U.S. dollar? Explain,

illustrating your answer with another graph. If there is technological

change in the U.S. leading to a increase in Germany's desire to import

computers from the U.S., how will this affect the equilibrium exchange

rate? Explain and illustrate with a separate graph.

3. Suppose a third world country like Brazil follows the fixed exchange

rate regime, and finds itself with a balance of payments deficit. Identify

and explain briefly three different policies which would allow Brazil to

regain equilibrium without needing to devalue. (graphs optional) What is

meant by the phrase Third World Debt Crisis? (The textbook's phrase is

Developing Country Debt Crisis). State and explain two causes of this

phenomenon.

4. Explain briefly what is meant by the principle of comparative

advantage. The United States produces, and also imports, shoes. Explain

and show on a graph how a tariff on imported shoes affects the U.S.

economy, compared to a situation of completely free trade. One of the

standard arguments used to defend tariffs is called the "infant industry"

argument. Explain what this means. Give one counter-argument against it.

5. Let's talk economic growth. Since the end of World War II, has the

growth in per capita real GDP in the United States been higher or lower

than that of the other industrial countries? According to Denison, what

are the major factors that explain (his phrase was "account for") growth

in the U.S., and what is their relative importance? What is meant by the

phrase "Productivity Slowdown" and what are two or three of the factors

which, it is argued, explain it?

The median on this exam was 64; the high was 100.

Econ 201   Exam #3   Fall,  1999    Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these

sheets, using the flip sides if necessary. Questions are equally weighted.

Be sure to label the axes on the graphs. If any question is unclear,

please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) MFN

b) Keiretsu

c) Dumping

d) Purchasing Power Parity

e) NTB

2a. What is meant by dualism, and why might it be important in the

analysis of developing countries?

  b. Name some examples of newly industrializing countries, and explain

why they are important in the analysis of developing countries.

c. What is meant by the term "debt crisis"

3. Consider the market for foreign exchange (French Francs - FF) in New

York. Draw a graph of the determination of the equilibrium exchange rate,

being sure to label the axes, identifying which curve is affected by U.S.

exports and which by U.S. imports. b. Will each of the following lead to a

depreciation or an appreciation of the dollar? Explain each answer,

illustrating it with a graph:

 inflation in France

 an increase in interest rates in the United States

-- technological change leads France to export more computers

4.

5?

The median on this exam was 77; the high was 96

Econ 201     Exam #3a   Fall, 1998             Professor Twomey

Please PRINT your name on the back of the last sheet. Also,

please indicate if you are in the other class.

Answer on these sheets, using the flip sides if necessary.

Questions are equally weighted. Be sure to label the

axes on the graphs. If any question is unclear, please ask for a

clarification.

1. Identify the following with a sentence or at most two:

a) Smoot-Hawley

b) Brain Drain

c) Bretton Woods

d) Dumping

e) NTB

2a. Explain briefly what is meant by the term productivity

slowdown.

b. The textbook discusses several causes of the U.S. productivity

slowdown. Identify and explain briefly two of

      them.

c. Finally, discuss briefly two solutions to this problem

(related to your answer (b) or not).

3a. In discussions of third world countries, the term "dualism"

is often used. What is meant by this term, and

what would be one example of a government policy which has been

suggested as a response to it?

3b. The textbook discusses different policies that governments

can take to improve the situation of third world

countries, pointing out that this might involve both developed as

well as third world governments. With regard

to LDC governments, we can further distinguish between actions

that everyone would agree are beneficial, and

those actions about which there is significant debate. Identify

and discuss one example of the "everybody

agrees" type policy, and two examples of those about which there

is much debate.

3c. What is meant by the term "Third World Debt Crisis?" Its

causes, and solution, may be found in either or

both the developed countries and the third world countries.

Discuss two causes, and two actions which have

been suggested to resolve it, being sure to indicate whether you

are talking about actions of developed or LDC

governments.

4a. Suppose the United States imports lathes, which are a certain

kind of machine. What would be the effects if,

from an initial situation of free trade, the U.S. government were

to impose a tariff on the importation of lathes?

Explain, illustrating your answer with a graph.

b. We all know that there have long been many debates between

free traders and protectionists. Explain briefly-

-don't evaluate, just state the case-- two economic arguments in

favor of using tariffs on lathes.

5. Consider the market in New York for French Francs (FF). Draw a

graph illustrating the determination of the

      equilibrium exchange rate.

In a floating exchange rate world, will the following lead to an

appreciation of the dollar, or a depreciation?

Explain and illustrate each answer with a new graph.

a). A U.S. importer purchases more French wine.

b). A French automobile firm decides to build an assembly plant

in California.

c). A U.S. college student decides to spend a year studying in

Paris.

d). The French government engages in contractionary monetary

policy.

The median on this exam was 79; high was 100

Econ 201   Exam #3b       Fall, 1998          Professor Twomey

Please PRINT your name on the back of the last sheet. Also,

please indicate if you are in the other class.

Answer on these sheets, using the flip sides if necessary.

Questions are equally weighted. Be sure to label the

axes on the graphs. If any question is unclear, please ask for a

clarification.

1. Identify the following with a sentence or at most two:

a) Capital flight

b) Purchasing power parity

c) Strategic trade policy

d) Dumping

e) VER

2a. According to the analysis by Edward Denison of the "sources

of growth,"  what are three of the most

important factors which have contributed to the growth of U.S.

real income since 1929? Explain each one real

briefly.

b. Why might the measured growth rates understate or overstate

changes in economic well-being? Give one

      argument each way.

3a. Identify geographically what countries are referred to, when

we use terms such as Third World or Less

Developed countries.

3b. It was argued that one of the characteristics of third world

countries is dualism. Identify and explain briefly

two other characteristics.

3c. One of the current problems is the "Third World Debt Crisis."

Discuss what is meant by this term, what are

its causes, and what would be three actions (taken either by

developed or LDC governments) which would help

resolve this problem.

4a. One of the arguments in favor of a tariff is called the

infant industry argument. Explain what this is,

illustrating it with a graph.

b. People who believe in free trade suggest several

counter-arguments against the infant industry position.

Identify and explain briefly two arguments against the infant

industry position.

5. Assume that there is a floating exchange rate between the

Mexican Peso (MP) and the U.S. dollar ($US).

Draw a graph of the market for Mexican Pesos in New York, being

sure to label the axes.

Will the following cause the Mexican Peso to appreciate or

depreciate? Explain and illustrate each answer.

a). The United States unilaterally reduces tariffs on Mexican

products that we import.

b) The Mexican government encourages U.S. firms to invest in

Mexican oil fields.

c). The U.S. economy moves into a severe recession.

d). Mexico suffers steep inflation.

The median on this exam was 81; high was 96

Econ 201        Exam #3    Winter, 1998  Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on

these sheets, using the flip sides if necessary. Questions are

equally weighted. Be sure to label the axes on the graphs. If any

question is unclear, please ask for a clarification. Time: about

an hour and a half.

1. Identify the following with a sentence or at most two:

a) Industrial Policy

b) Purchasing power parity

c) Costs of Protectionism

d) Brain Drain

e) Doomsday Models

2a. What is meant by the term productivity slowdown? Identify and

discuss briefly three causes of it.

     What could the government do to reverse this?

b. According to Denison, what are three of the most important

factors which contributed to U.S. economic growth during this

century?

3a. Explain and illustrate with a graph how a tariff affects

domestic production, consumption and trade.

b. What is meant by an infant industry? How does its analysis

differ from your answer above?

c. Discuss briefly the major factors which led to the demise of

the Bretton Woods system of fixed exchange rates.

4. Below are some terms which relate to the analysis of problems

of third world countries.

a) Debt crisis: what is meant by this, what are its causes, and

what are its potential solutions?

b) Demographic Transition: What is meant by this? Is it good or

bad, or, concretely, should it be encouraged or discouraged?

c) Land reform What is meant by this? Give one argument in favor,

and one against.

5. Consider the market in New York for foreign currency;

specifically the Japanese yen, (written as Y). Draw a graph of

the determination of the equilibrium exchange rate, identifying

the roles of U.S. exports, imports, and capital inflows and

outflows.

Would the following lead to an appreciation or

a depreciation of the dollar? Illustrate each on a new graph.

a. Greater inflation in the U.S.

b. Tight monetary policy increases interest rates in Japan

c. A new government leads Japan to adopt protectionist policies.

The median on this exam was 60, the high was 87.

Econ 201     Exam #3a     Fall, 1997   Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on

these sheets, using the flip sides if necessary. Questions are

equally weighted. If any question is unclear, please ask for a

clarification.

1. Identify the following with a sentence or at most two:

a) Economies of scale

b) Strategic Trade Policy

c) WTO

d) Purchasing Power Parity

e) Demographic transition

2.  Evaluate the following statements:

a) Protective tariffs limit both the imports and exports of the

nation levying tariffs.

b) Foreign firms which "dump" their products onto the American

market are in effect presenting the American people with gifts.

c) Unemployment can often be reduced through tariff protection,

but by the same token inefficiency typically increases

d) Free trade can improve the composition and efficiency of

domestic output. The Volkswagen forced Detroit to build a compact

car, and the foreign success with the oxygen process forced

American steel firms to modernize.

3a. What is the general message behind the Club of Rome's

Doomsday Model?

b. What does it mean to say that these are neo-Malthusian?

c. How does this relate to the recently completed international

meetings in Kyoto?

d. State and explain briefly two criticisms of the Club of Rome's

Doomsday Model.

4. Discuss three policies that a third world country's government

might follow to try to improve the country's overall welfare. For

each policy, mention an economic or political consideration which

places limitations on how much might be expected from that

policy.

5.  Draw a graph illustrating the determination of the exchange

rate between Venezuela (whose currency is indicated with a B),

and the U.S. dollar. For each of the following scenarios, explain

and illustrate on a separate graph how the equilibrium exchange

rate would be affected.

a) The U.S. reduces tariffs on Venezuelan exports

b) Venezuela suffers severe inflation

c) The United States' economy moves into a severe recession

d) The U.S. Federal Reserve embarks on tight monetary policy

e) Deteriorating political relations reduce U.S. tourism in

Venezuela

The median on this exam was 79; the high was 100

Econ 201                 Exam #3b                   Fall, 1997

                           Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on

these sheets, using the flip sides if necessary. Questions are

equally weighted. If any question is unclear, please ask for a

clarification. Time: until 2:50

1. Identify the following with a sentence or at most two:

a) Land Reform

b) Most Favored Nation

c) Strategic trade policy

d) Labor force participation rate

e) Purchasing power parity

2a. According to Dennison, what are three of the most important

contributors to the growth of the U.S. economy since 1929?

Explain each briefly.

b. What is meant by the term "productivity slowdown?"  Give two

examples of suggested causes, and policies the U.S. government

could take to counteract them.

3a. What are the two main subdivisions, (in addition to the

"bottom line") of the balance of payments statement? For each

one, identify a macroeconomic variable which has a major impact

on it, and explain why.

b. Suppose a country has a fixed exchange rate, and currently has

a balance of payments deficit. Identify two different actions

that country's government might take to remedy the situation,

without devaluing, and explain the political and economic

difficulties, if any, of pursuing each policy.

c. The current exchange rate system is described as a "managed

float."  What does this mean, and what are the advantages of such

an arrangement?

4a. Suppose a country initially has a policy of free trade in a

product such as shoes, but then decides to impose a tariff on

imported shoes. Explain and illustrate with a graph the effects

of the tariff.

b. One of the arguments for protectionism is called "infant

industry."  Explain what this means.

c. Identify and explain very briefly two arguments against the

infant industry position.

5a. Consider the market for Dutch Guilders (denoted G) in New

York. Draw a graph illustrating the determination of equilibrium

exchange rate, identifying one or two macroeconomic factors which

influence each curve.

b. What happens to the equilibrium rate of the dollar if there is

inflation in Holland? Explain and illustrate on the graph.

c. How would an increase in interest rates in the United States

affect the equilibrium exchange rate? Explain and illustrate on a

separate graph.

d. Suppose the Dutch prime minister has a heart attack during a

political crisis, leading people to transfer their monetary

investments out of the country. Explain how this will affect the

equilibrium exchange rate; illustrate with another graph.

The median on this exam was 66; the high was 98

Economics 201                           Exam #3

     Winter, 1997                 Professor Twomey

Please PRINT your name on the BACK of the last sheet. Write on

these sheets, using the backs if you need space. Questions are

equally weighted. Please ask for clarification if you do not

understand the question.  Good luck!

1. Identify the following with a sentence or at most two:

a) Industrial policy

b) MFN

c) NTB

d) Debt equity swap

e) Managed Float

2. Consider an economy which is initially following a policy of

free trade, and then a new government decides to be

protectionist. Suppose the economy imports shoes. How will the

new policy affect domestic production, consumption, etc. of

shoes?

What might be two economic arguments in favor of this policy?

Explain briefly.

Economists typically believe that free trade is the best policy.

Sketch out what might be counterarguments to the arguments you

have mentioned above.

3. According to the study of Denison, what have been the major

causes of growth in the U.S. economy during the twentieth

century?

What is meant by productivity slowdown? Explain briefly.

What would be three policies that the government could follow

which would counteract the productivity slowdown? Explain .

4. Draw a graph of the determination of the exchange rate of the

French Franc (FF) in New York, being sure to label the two axes.

Suppose that, after a period of stability, France begins to have

inflation. How will that affect its equilibrium exchange rate?

Explain, and illustrate on a graph. IS this a depreciation or an

appreciation of the Franc?

If France wishes to regain equilibrium at the old exchange rate,

what would be three policies that its government could pursue?

Explain each one briefly. (Graph optional)

5. Consider a third world country-give it a name if you wish,

like Mexico or China or whatever.

State and explain briefly three economic problems confronting

this country.

What might be two policies the country's government could utilize

to help overcome these problem? Explain.

What might be two policies that industrial countries like the

U.S., someplace in Europe, or Japan, could implement which would

help the third world country? Explain.

The median on this exam was 73; the high was 92

Economics 201             Exam #3             Fall, 1996

         Professor Twomey

Please PRINT your name on the BACK of the last sheet. Write on

these sheets, using

the backs if you need space. Questions are equally weighted.

Please ask for

clarification if you do not understand the question.  Good luck!

1. Identify the following with a sentence or at most two:

a) Doomsday models

b) Non-tariff barriers

c) LDC Debt Crisis

d) Industrial policy

e) Bretton Woods System

2. Consider the market for French Francs (F) in New York. Draw a

graph illustrating

the determination of equilibrium exchange rate. In terms of that

graph, which of the

major elements of the U.S. balance of payments account affect

supply, and which

affect demand?

-Will inflation in France lead to an appreciation or depreciation

of the U.S. dollar?

Explain, illustrating your answer with another graph.

-If there is technological change in France leading to a decline

in their desire to

import computers from the U.S., how will this affect the

equilibrium exchange rate?

Explain and illustrate with a separate graph.

3. Suppose a third world country like Brazil follows the fixed

exchange rate regime,

and finds itself with a balance of payments deficit. Identify and

explain briefly

three different government policies which would allow Brazil to

regain equilibrium

without needing to devalue. (graphs optional)

-In discussing the world's experience with fixed exchange rates

in the 1930s, the

textbook states: "But every nation can play the devaluation game,

and most did. The

resulting rounds of competitive devaluations benefited no one; on

the contrary,

they contributed to a further demoralization of world trade."

-What is meant by competitive devaluation?

-Why do such devaluations lead to demoralization [discouragement,

reduction] of

world trade?

4. Explain briefly what is meant by the principle of comparative

advantage.

-The United States produces, and also imports, shoes. Explain and

show on a graph

how a tariff on imported shoes affects the U.S. economy, assuming

that the original

situation was one of free trade.

-One of the standard arguments used to defend tariffs is called

the "infant

industry" argument. Explain what this means. Give one

counter-argument against it.

5. Let's talk economic growth.

Since the end of World War II, has the growth in per capita real

GDP in the United

States been higher or lower than that of the other industrial

countries?

-According to Dennison, what are the major factors that explain

(his phrase was

"account for") growth in the U.S., and what is their relative

importance?

-What is meant by the phrase "Productivity Slowdown" and what are

two or three of

the factors which, it is argued, explain it?

median 74 high was 95

Econ 201    Final Exam   9:30 Class    Winter, 1996

Professor Twomey

Please PRINT your name on the BACK of the last sheet. Please

indicate if you are

registered in the other class. Answer on these sheets, using the

backs if you need

space. Questions are equally weighted. Be sure and label the axis

and lines in the

graphs Time: an easy hour. Ask for clarification if the question

is unclear. Good

luck.

1, Identify the following with a sentence or at most two:

  a) VER

  b) Strategic trade policy

  c) adjustable peg system

  d) demographic transition

  e) GATT

2a. According to the analysis of E. Dennison, what are the major

factors accounting

for the growth of real income in the U.S. for the period

1929-1982, and what is the

relative size of their contributions?

b) What is the major idea behind the so-called þdoomsday models?þ

What are some of

the important criticisms of these models?

3a. What are the three major components of the balance of

payments? Give an

example of an item which is included in each one.

3b). Is the U.S. trade deficit good or bad? Explain.

3c) Consider the case of  a U.S. economic policy maker who wishes

to reduce the U.S.

trade deficit.  Name and explain briefly two policies which would

bring that result.

4. Comment and evaluate: þThe nature of the problems faced by the

less developed

countries creates a bias in favor of governmentally directed, as

opposed to a

decentralized development process.þ

b. What is meant by NICs. Give a couple of examples. Why are they

important in the

contemporary world?

5. Consider the market for French Francs in New York.

A). Draw the graph of the determination of the equilibrium

exchange rate, being sure

to label each axis.

Will the following lead to a depreciation or an appreciation of

the U.S. dollar?

Illustrate each answer with a separate graph, explaining briefly.

  I) Inflation in the U.S.

  ii) New technology is discovered in the U.S., which leads to

new exports.

  iii) The French central bank engages in tight monetary policy.

B) Explain briefly why the Bretton Woods system fell apart.

the median on this exam was 66; high was 96

Econ 201    Final Exam      Fall, 1995           Professor Twomey

Please print your name on the back of the last sheet. Answer on

the backs of these

sheets if you need space. Please ask for clarification if the

question is not clear.

Questions are equally weighted. Be sure to label all the axes of

the graphs.

1. Identify the following with a sentence or at most two:

a) most favored nation

b) crowding out

c) VERs

d) Doomsday models

e) Smoot Hawley

2. Explain and show with a graph the effect on a country's

production and

consumption if, in a prior context of free trade, a tariff is

imposed.

b. One position in favor of tariffs is the so-called infant

industry argument.

Explain that argument, illustrating it with a graph. For the

United States, is this a

valid argument? Explain briefly

3a. According to Denison, what are the major factors which have

contributed to the

growth of the U.S. economy since the Depression? What is their

relative importance?

b. What is meant by the term productivity slowdown?

c. What lessons would be derived from the analysis of Denison to

help reverse the

productivity slowdown? Discuss briefly

4. Explain or evaluate each of the following statements?

a). A national debt is like a debt of the left hand to the right

hand

b) The least likely problem arising from a large public debt is

that the Federal

government will go bankrupt

c) The basic cause of our growing public debt is a lack of

political courage

d) The social security reserves are not being reserved. They are

being spent,

masking the real deficit.

5. Consider the market for French Francs (signified as FF) in New

York. Draw a graph,

illustrating the determination of the equilibrium exchange rate

between the U.S.

dollar and the Franc, identifying the roles of the different

countries' exports,

imports, and capital flows.

Do the following lead to an appreciation of the dollar or a

depreciation? Explain

briefly, illustrating each answer with a graph.

a) An increase in inflation in France

b) Tight monetary policy in the United States

c) Fear of political instability causes people to withdraw their

investments from

France.

Median on this exam was 70; high was 93

Econ 201      Final Exam      Spring, 1996   Professor Twomey

Please PRINT your name on the BACK of the last sheet.  Use the

backs of these

sheets if you need the space. Please ask for clarification if you

donþt understand

the question. Time: unlimited, which should be about an hour.

Good luck!

1. Identify the following with a sentence or at most two:

  a) Industrial policy

  b) Land Reform

  c) GATT

  d) Managed float

  e) Demographic transition

2. According to Denison, what were the major sources of growth of

output of the U.S.

economy during the period 1929-1982, and what was (roughly) the

relative importance

of those factors?

What is meant by the phrase productivity slowdown?

Discuss briefly three different factors which have been mentioned

as causes of the

productivity slowdown.

3. One of the important aspects of globalization in todayþs world

economy is

economic integration; two important examples are the European

Union (EU) and NAFTA.

With regard to the EU, what were the major goals, economic and

otherwise, of those

who initially worked for its establishment?

   What success has the EU had in these areas?

   What new problems does the EU confront today?

 The textbook states that free trade with Mexico in NAFTA is

controversial in the

U.S. Is the existence of this controversy economic theory

compatible with economic

theory? In other words, does theory predict that everybody should

be happy with an

agreement such as NAFTA? Explain briefly.

4. Explain, illustrating your answer with a graph, the major

impacts of a tariff on a

country which initially is engaged in free trade. Suppose the

protected industry

were automobiles.

Explain and evaluate two arguments for protectionism in

automobiles in the U.S.

Consider the case of a developing country such as Peru. Explain

and evaluate two

arguments (the same ones, or different ones) for protectionism in

an industry such

as automobiles, in Peru.

5a. Consider the market for French Francs (F) in the United

States. Draw a graph of

the determination of the equilibrium exchange rate, being careful

to label the axes.

What are the major factors that affect the Supply and Demand

curves?

b. How does inflation in France affect the equilibrium exchange

rate? Explain and

illustrate with a graph.

c. How does technological change in the U.S. affect the

equilibrium exchange rate?

Explain and illustrate with a graph.

d. Suppose the world were operating in a system of fixed exchange

rates, and that

France had a balance of payments deficit.  Name two governmental

policies which

could eliminate the balance of payments problem, and illustrate

their effects on a

graph, explaining how they would affect the economy.

the median on this exam was 75; high was 100

Econ 201      Final Exam       12:30 Class        Winter, 1996

            Professor Twomey

Please PRINT your name on the BACK of the last sheet. Please

indicate if you are

registered in the other class. Answer on these sheets, using the

backs if you need

space. Questions are equally weighted. Be sure and label the axis

and lines in the

graphs Time: an easy hour. Ask for clarification if the question

is unclear. Good

luck.

1, Identify the following with a sentence or at most two:

  a) Smoot Hawley

  b) Managed float

  c) Purchasing power parity

  d) industrial policy

  e) land reform

2a. What is meant by the term þproductivity slowdown?

b. What are the major causes of the productivity slowdown?

c. What policies could the government apply to remedy this

problem?

3. Draw a graph of the impact of imposing a tariff, when the

initial situation was

free trade. Explain the major effects.

Give two separate arguments for (or situations favorable to) the

use of tariffs,

and two against tariffs.

4a. What is meant by the term LDC debt crisis?  What were its

major causes? How can

it be resolved?

b. Is supply side economics more relevant or less relevant for

developing

countries? Explain your answer briefly, giving a couple of

examples to illustrate

your point..

5. Draw a graph illustrating the determination of the equilibrium

exchange rate of

the German Mark in New York. Be sure to label each axis.

How will each of the following affect the exchange rate?  Will

they appreciate or

depreciate the dollar? Illustrate each answer with a graph.

a) The reunification of Germany leads to unusually high

inflation.

b) German tourists want to come to the U.S. to watch the Olympic

games.

c) American companies decide to invest in Germany

Finally, state briefly what should be the major criteria in

choosing between fixed

and flexible exchange rates.  Donþt try to evaluate which system

is better, simply

suggest what it is that people should consider in trying to

evaluate the two

options.

the median on this exam was 64; high was 95Econ 201  Final Exam

Fall, 1993

Professor Twomey

Please PRINT your name on the BACK of the LAST SHEET.  You will

lose credit if it

appears anywhere else.  Questions are equally weighted. Answer on

the back sides

of the sheets if necessary. Time - whatever you need, about an

hour.

1. Identify the following with a sentence or at most two:

a) Most favored nation

b) Industrial Policy

c) gold standard

d) capital flight

e) VERs

2. Give two economic arguments in favor of the NAFTA agreement,

and two against,

explaining each one briefly.

3a. What is meant by the productivity slowdown?

b. The textbook divides the explanations of the productivity

slowdown into two

categories, one focusing on capital/investment, and the other on

labor. For each of

these factors, give two specific causes.

c. What is one reason for thinking that there might be a

resurgence in productivity

in the US?

4. What are the three major categories of the balance of payments

statement?

b. What is meant by the Bretton Woods System?  Give three

characteristics of how it

was supposed to work.

5. Consider the determination of the exchange rate between the

Brazilian currency,

indicated by C, and the US dollar ($).

a. Draw a graph illustrating the supply and demand for C in New

York, being careful

to label the axes correctly.

b. On that graph, what factors determine the demand,

  and what factors affect the supply?

c. Suppose Brazil has greater inflation than the US.  Will that

lead to a devaluation

or a revaluation of the C?  Explain and illustrate with a graph.

d. If the United States government lends Brazil some money, how

should that affect

Brazil's equilibrium exchange rate?  Explain, and illustrate with

a graph.

The median on this exam was 66; the high was 96.

Econ 201      Final Exam         Spring, 1994    Professor Twomey

Please PRINT your name on the BACK of the last sheet.  If you

need more space for

your answers, use the backs of these sheets. If any question is

unclear, ask for

clarification. Questions are equally weighted. Time: 1 hour. Good

luck.

1. Identify the following with a sentence or at most two:

a) Managed floating exchange rates

b) Uruguay Round

c) Dualism

d) Industrial Policy

e) Capital Flight

2a. The textbook presents a rather extensive discussion of the

determinants of the

growth of U.S. labor productivity.  State three factors

contributing to this growth,

and, for each one, discuss a government policy, if any, which

could lead to more

growth.

b). The growth of labor productivity in Japan has been more rapid

than that of the

United States.  State and explain briefly two reasons why.

3i. Explain and illustrate with a graph the major effects of a

tariff, imposed in a

situation initially characterized by free trade.

ii) Two major arguments in favor of protectionism are; that

tariffs encourage

domestic employment, and the infant industry argument. Discuss

each, illustrating

with a graph.  How might a proponent of free trade counter each

argument?

4a. State two items which appear as credits on the current

account (of the balance

of payments).

b) What is meant by the term third world debt crisis? State and

explain briefly two

causes of the third world debt crisis.

c).  During the decade of the 1980's, the balance of trade

deficit of the United

States grew significantly. Was this good for us or not?   State

and explain briefly

two causes of the increased deficit.

5. Consider the market in New York for foreign exchange -

specifically that for

Japanese yen.  Draw a graph of the this market, being sure to

label correctly the

axes.  What are the major factors which affect the Supply and

Demand on your graph?

Suppose there is inflation in the United States.  If we have

floating exchange

rates, would that lead to an appreciation or depreciation of the

dollar? Explain and

illustrate on the graph.

Now, take a different situation, one of fixed exchange rates

between Japan and the

U.S.  Suppose there is technological progress in Japanese export

industries.  Would

this lead to a balance of payments surplus or deficit in the

U.S.?  Illustrate your

answer with a graph.  Suppose the U.S. authorities wished to

maintain the old

exchange rate.  What sort of monetary and fiscal policies would

they have to

implement to regain balance of payments equilibrium?  Explain.

The median on this exam was 69; the high was 96.

Econ 201  Final Exam   Spring, 1993            Professor Twomey

Please PRINT your name on the BACK of the LAST sheet. Answer on

these sheets,

using the backs if necessary. Please ask for clarification of any

badly worded

question. Questions are equally weighted. Time: Whatever you need

-- about one

hour.

1. Identify the following with a sentence or at most two:

a) Gramm Rudman Hollings

b) Balance on current account

c) VERs

d) Brain drain

e) Industrial policy

2. The text mentions the three most important causes historically

for the increase

in the U.S. government's debt. What are they?

What are three causes for the slowdown in U.S. economic growth?

3. Show on a graph how imposing a tariff (on an initial situation

of free trade) will

affect a country's production, consumption, etc.

What is the infant industry argument for protection? Explain it,

and illustrate it

with a graph. What might be two industries in the U.S. for which

this could be valid?

4. The textbook has a long discussion of the national debt. One

argument against the

current increase in the debt is that this has happened in

"inappropriate"

circumstances. Why might it make a difference whether the debt

was increased in a

time of full employment or significant unemployment?

Is it true of the U.S. national debt that "we owe it to

ourselves?" In circumstances

where this is true, is that a valid reason for saying that the

debt isn't important?

One argument against the debt relies on an asserted foreign trade

effect, which in

class was called "foreign exchange crowding out." Explain this

argument,

illustrating it with a graph or two.

5. With regard to these excerpts from the article distributed in

class, entitled

"Japan threatens action to Brake the Soaring Yen:"

a) Explain why the yen's appreciation would help reduce Japan's

huge trade surplus,

and why the Japanese Prime Minister would fear it rising too

rapidly.

b) Draw a graph of the market for Japanese Yen in New York,

identifying the role of

U.S. exports, U.S. imports, and capital flows into and out of the

U.S.

c) How would technological change in Japan affect the equilibrium

exchange rate?

Explain, and illustrate on a graph.

d) Explain why actions by Japan's government and central bank to

lower Japanese

interest rates would slow down or stop the appreciation of the

yen. Show on a

graph.

 Economics 201    Exam #3     Winter, 1993            Prof.

Twomey

Please PRINT your name on the BACK of the LAST sheet.

Answer on these sheets, using the back sides if necessary.

Questions are equally

weighted. Ask for clarification of any ambiguous question.  Good

Luck.

1. Identify the following with a sentence or at most two:

a) Incomes policies

b) Strategic trade

c) Laffer curve

d) Privatization

e) GATT

2. Show with a supply and demand graph what would be the expected

effects on an

industry of reducing a tariff.

b. In the context of the North American Free Trade Agreement,

there will be

reductions of tariffs among Canada, the United States and Mexico.

Pick two

industries in the U.S., one producing products which we export,

and the other

producing products which are also imported, and discuss how the

NAFTA agreement

will affect workers in those two industries.

3. One of the major issues in the U.S. economy as we end this

century is the

slowdown in productivity growth.

a. What is meant by the productivity slowdown?

b. According to our textbook, what have been the major factors

contributing to the

growth of productivity in the U.S. during this century?

c. Identify and discuss briefly two causes of the productivity

slowdown.

4.Consider the market for Japanese Yen (indicated as a Y) in New

York.

a. Draw a graph of the determination of the exchange rate of the

Yen, clearly

indicating what variable is put on each axis, and also specifying

which

macroeconomic variables affect Supply and Demand.

b. How will inflation in the United States affect the equilibrium

exchange rate? Will

this lead to a devaluation or a revaluation of the dollar? Show

on a graph.

c. Assume that there is technological change in Japanese export

industries,

creating new products which U.S. consumers wish to purchase. How

will this affect

the market for foreign exchange, and the exchange rate?

5a. Explain and illustrate with a graph how a deficit of the

federal government,

financed by foreign borrowing, will lead to a trade deficit.

b i. Explain and illustrate with a graph the concept of a

Phillips curve.

  ii. Explain the argument that, in the long run, the Phillips

curve is vertical. What

important recommendation about government policy would be

concluded from this

argument?

The median on this exam was 57; the high was 88.

Economics 201  10:30 Class  Final Exam  Fall, 1992  Prof. Twomey

Please PRINT your name on the back of the last sheet.  Ask for

clarification of any

ambiguous question.  Time: 1 hour. Questions are equally

weighted.  Good luck.

1. Identify the following with a sentence or at most two:

a) Tax wedge

b) Non-tariff barriers

c) Dumping

d) Bretton Woods System

e) Most favored nation

2. Draw a graph illustrating the determination of the exchange

rate for the French

Franc in, say, Germany, indicating the main determinants of

supply and demand for

Francs.

b. Would the following change the supply or demand for Francs,

and lead to a

devaluation or revaluation of the Franc:

  i A German student decides to spend a year studying in Paris

  ii The German government lends some money to the French

government

  iii A good harvest makes French wines especially tasty

  iv An upcoming election creates uncertainty in France

3a. Explain how and why a reduction in the US government's budget

deficit might

contribute to a decline in the US trade deficit.  Under what

circumstances might

this be good for the US economy?

b. In what sense is the current exchange rate system what the

text calls a

"nonsystem"?

4. Select an item which the US imports, and show the effects of a

tariff on

production and trade of that item.

What is the infant industry argument for protection, and might it

apply for the item

you discussed above?

5. One of the major issues in the recent presidential election

was the economy; a

major economic problem is the productivity slowdown.

a. What is meant by productivity slowdown?

b. Various economists have made different suggestions as to how

to remedy this.

Below are a series of economic buzzwords. What sort of policy

would be proposed by

those who support the associated analyses, and what is the

economic rationale in

favor of their suggestions:

i Strategic trade policy

ii Laffer curve

iii Privatization

iv Direct foreign investment

Economics 201  12:30 Class  Final Exam  Fall, 1992  Prof. Twomey

Please PRINT your name on the back of the last sheet.  Ask for

clarification of any

ambiguous question.  Time: 1 hour. Questions are equally

weighted.  Good luck.

1. Identify the following with a sentence or at most two:

a) Crowding out effect

b) Gramm-Rudman-Hollings Act

c) Line item veto

d) GATT

e) Tax wedge

2. Consider the situation of the gold standard (or a fixed

exchange rate), in which

country A (whose currency is called As) has a balance of payments

deficit with

respect to the rest of the world, whose currency is called the

dollar.

a. Draw the graph of the determination of the exchange rate of

the As

b. If the traditional automatic adjustment mechanism were to

operate, what would

happen inside country A?

c. If the government of country A wished to intervene to speed up

the adjustment

mechanism, what could it do? Illustrate with a graph.

3a. Something which politicians are fond of promising during

their campaigns is a tax

cut. In terms of the Aggregate Supply/Aggregate Demand graph,

contrast the

Keynesian (demand side) with the Supply Side analysis of the

effects of a tax cut.

b. With which analysis is the Laffer curve more closely related,

and how does it

differ from that one?

c. Which, if any, of the above analyses explains the recession

which occurred after

President Reagan cut taxes?  Explain.

4a. Consider a world composed of two countries, the United States

and Mexico.

Explain the principle of comparative advantage in terms of what

it would mean with

respect to those two countries.

b. What is the North American Free Trade Zone, (or Agreement)?

Mention one

argument in favor of approving it, and one against it.

5.  According to the analysis discussed in the textbook (and

class), what have been

the major sources of economic growth in the U.S. during this

century?

What is meant by the productivity slowdown?

What are its causes, and what might the government do to reverse

it?

Econ 201    Exam #3  9:30 Class   Winter, 1995  Professor Twomey

Please PRINT your name on the BACK of the LAST sheet.  Answer on

the backs if you

need the space. Questions are equally weighted. Please ask for

clarification if the

question is not clear.  Time: a loose hour.  Good luck

1. Identify the following with a sentence or at most two:

a) NTBs

b) Uruguay round

c) capital account

d) industrial policy

e) Neocolonialism

2. Less Developed Countries (LDCs) have been calling for a New

International

Economic Order (NIEO). State three components of such an NIEO,

explaining how they

would help the LDCs.

Advocates of free market, non-interventionist policies would have

a different set

of recommendations for LDCs. State and explain two components of

such an agenda.

3a. The United States imports wine (from France, Italy, Chile),

while also producing

it in California, Michigan and elsewhere. Suppose that a

protectionist president

gets elected, who decides to put a tariff on imported wine.

Explain and show on a

graphn how this will effect U.S. production, consumption and

imports.

b. One of the principal arguments in support of tariff protection

is called infant

industry argument.  Explain briefly what this means.

c. Would the U.S. wine industry be an infant industry? Explain

your answer.

4. To what extent have increases in the U.S. real GDP been the

result of more labor

inputs?  Of increasing labor productivity?

b. Discuss some of factors which contribute to productivity

growth in order of

their quantitative importance.

5. Recently, the exchange rate of the dollar with respect to the

mark (M) has fallen

from 1.5 M/$ to about 1.35, and predictions are that it will fall

to as low as 1.2.

a.   Draw a graph of the determination of the exchange rate of

the mark in New York,

clearly labeling the axes and indicating what role U.S. exports,

imports, and capital

inflows play in the supply and demand.

b. Some people believe that one possible explanation for this

exchange rate decline

is greater technological progress in Germany. Show on a graph and

explain how

German technological progress effects the equilibrium exchange

rate; is this

explanation consistent with the observed movement of the exchange

rate?

c. Another potential explanation of the movement of the exchange

rate is that

German interest rates are too high. Explain and show on a graph

how an increase in

German interest rates would be expected to change the equilibrium

exchange rate.

Is your answer consistent with observed change in the exchange

rate?

d. Should the observed change in the exchange rate be helpful

for, or harmful for,

U.S. automobile producers? Explain.

the median on this exam was 65.

Econ 201   Exam #3     12:30 Class     Winter, 1995   Professor

Twomey

Please PRINT your name on the BACK of the LAST sheet. Answer on

the backs of these

sheets if you need space.  Questions are equally weighted. If you

don't understand a

question, please ask for clarification. Good luck!

1. Identify the following with a sentence or at most two:

a) MFN

b) official reserves

c) brain drain

d) industrial policy

e) Uruguay round

2a. Many people believe that a major problem of developing

countries is dualism.

What is meant by this, what would be two examples, and what

recommendations about

policy are implied by it?

b. Two major sources of economic growth for industrial countries

have been

technological change and capital accumulation. According to the

textbook, what has

been their relative importance? In theory, these should also be

important for

developing countries, although there would be differences. For

both tech. change

and capital accumulation, what would be one way in which its role

for LDCs would be

different?

3. Use "economies of scale" analysis to explain why the Common

Market has enabled

many European industries to compete more effectively in

international markets.

b. Explain: "Economic integration leads a double life: it can

promote free trade

among members, but pose serious trade obstacles for nonmembers."

4a. What is meant by the term "productivity slowdown?"  What

would be three factors

which have been proposed to explain what that has happened in the

U.S.?

b. What is the infant industry argument for protection?  Pick as

an example an

industry in a developing country, and give one reason why it

might be valid, and one

why it might be invalid.

5. Here's your chance to check the economic analysis of the head

of the IMF. With

respect to the attached article, from last Wednesday's Wall St.

Journal...

a) draw a graph of the determination of the exchange rate of the

yen in New York,

being careful to label the axes, and to identify what factors

affect supply and

demand.

b) If the U.S. were to raise interest rates, how would that

affect the exchange rate

of the dollar? Explain, illustrating with a graph.

c) If Japan were to open its market to foreigners (allowing more

imports), how would

that affect the exchange rate?  Explain, illustrating with a

graph.

d) What is it that "textbook economics" predicts would be the

effect on the exchange

rate, of a reduction of the U.S. government's deficit? Explain,

illustrating with a

graph.

the median on this exam was 65

Econ 201      Final Exam           Fall, 1994  Professor Twomey

Please PRINT your name on the BACK of the LAST page.  Use the

backs of these

sheets for your answers, if you need space.  Please ask for

clarification if a

question is unclear.  Questions are equally weighted.  Good luck.

1. Identify the following with a sentence or at most two:

a) industrial policy

b) VERs

c) purchasing power parity

d) functional finance

e) Smoot Hawley

2. One of the standard arguments against government deficits is

that they can lead

to decreases in private sector investment. What name is given to

this argument?

A different line of criticism of government deficits is that (in

a floating exchange

rate regime) they indirectly affect employment through their

impact on exports and

imports.  Explain this argument - no graphs necessary.

The above is felt to have occurred in the U.S. in the 1980s.

What are two other

causes of our foreign trade deficit?

3.  In one or two sentences, what is the fundamental economic

argument against

protectionism?

Explain how each of the following arguments is used to support

protectionism, and,

if possible, state whether or not the "economics profession"

accepts the argument.

- strategic trade

- cheap foreign labor

- retaliation

- increases domestic employment

4. What is meant by the term "productivity slowdown?"

State and explain three factors which have been used to explain

the productivity

slowdown.

5. Consider the market for French Francs (FF) in the U.S. Draw

the graph illustrating

the determination of the equilibrium exchange rate, identifying

the role of French

exports and French imports on the curves.

Will the following lead to an appreciation or a depreciation of

the U.S. dollar?

Explain, illustrating each answer with a graph.

a) Increase in taxes in the United States

b) Greater inflation in France

c) Higher interest rates in France.

The median on this exam was 63; the high was 96.

Econ 201    Exam #3     Spring, 1995  Professor Twomey

Please PRINT your name on the BACK of the last sheet. You have a

long hour.

Questions are equally weighted. If the question is unclear,

please ask for

clarification. Good Luck!

1. Identify the following with a sentence or at most two:

  a) Brain Drain

  b) industrial policy

  c) Uruguay round

  d) Neocolonialism

  e) NTBs

2a. Many people believe that a major economic problem affecting

developing

countries is dualism.  What is meant by dualism, what would be

two examples of it,

and what implications for government policy does it suggest?

2b. Some people in developing countries believe that a major

avenue of their

progress would be improved treatment as suggested by the term

NIEO. State some

examples, explaining briefly.

3a. According to the results of Denison, what have been the major

sources of

growth of real income, and real income per capita, in the U.S.?

b. What is meant by the term "productivity slowdown"? what would

be three factors

to explain why this has occurred in the U.S.?

4a. The U.S. is currently engaged in negotiations with Japan

about trade in

automotive products, and our administration has threatened

tariffs (and other

trade restrictions) if the Japanese government doesn't agree to

our demands.

Explain, using a graph, how a tariff would be expected to affect

production,

consumption, etc. in the U.S.? According to standard theory,

would this help or hurt

the U.S.?

b). What is the infant industry argument for protection?

Illustrate it, picking a

real or fictitious example of a product in a developing country.

5. Consider trade between the U.S. and Korea, whose currency is

called the Won,

indicated by a W.

a) Draw the graph of the determination of the equilibrium

exchange rate of the Won

in the U.S., identifying the role of U.S. exports, imports, and

loans to Korea in terms

of the lines of the graph.

b) Suppose Korea has more inflation than does the U.S. Will this

lead to a

depreciation or appreciation of the dollar? Explain, illustrating

your answer with a

graph.

c) Suppose Korea has more technological progress than does the

U.S. How should

that affect the equilibrium exchange rate? Explain, illustrating

with (another)

graph.

d) Finally, suppose that the U.S. Fed raises interest rates here.

How should this

action be expected to affect the equilibrium exchange rate?

Explain and illustrate

with a graph.

The median on this exam was 81. The high was 91.