**Economics 301 Intermediate Macroeconomics Exam #1 Fall, 2013 Prof. Twomey**

Please print your names on the back of the last sheet. Answer on these sheets, using the backs of the sheets if you need extra space. The weight of each question is indicated. Please ask for clarification if any question is unclear. Time: the entire class.

1. Identify the following with a sentence or at most two (20 points):
2. Endogenous variable
3. Classical dichotomy
4. National income accounts identity
5. (Distinguish between) Employment rate and the Labor Force Participation Rate
6. Fisher effect

2. (20 points) Consider the standard closed economy full employment model that we have studied – sometimes called the loanable funds model. Draw a graph illustrating the determination of the real rate of interest, as described by that model. Be sure to identify the names of each axis, and label the curves. Explain and illustrate on that graph what happens in the macro-economy if the level of government spending falls.

- In that circumstance, what happens to: (explain real briefly)

Real GDP

Consumption

Tax revenue

The real interest rate

Private sector Investment

The government’s Deficit

Unemployment

If in a slightly different world, private savings positively responds to increases in interest rates; will the effect on consumption be bigger or smaller?

3. (10 points) An economy initially has a monetary base of 1,000 one dollar bills. Calculate the money supply in each scenario:

1. All money Is held as currency
2. All money is held as demand deposits.

Banks hold 20 % of deposits in reserves.

1. People hold equal amounts of currency and demand deposits. Banks hold 20% of deposits as reserves.

4. (10 points) Suppose a country has a money demand function (M/P)d = kY, where ‘k’ is a constant parameter. The money supply grows at 15% per year, and real income grows by 5% per year.

a) What is the average annual inflation rate?

b. How would inflation be different if real income growth were higher? Explain briefly.

1. Suppose that instead of a constant money demand function, the velocity of money in this economy was growing steadily because of financial innovation. How would that affect the inflation rate? Explain briefly.

5. (10 points) Should each of the following events be expected to increase or decrease real GDP. In each case, do you think economic well-being will change in the same direction as real GDP? Why or why not?

1. A major power-outage forces Las Vegas to dis-continue gambling operations for a month.
2. The discovery of a new, easy-to-grow (and environmentally neutral) strain of wheat increases farm harvests.
3. Improved labor-management relations reduces the frequency of labor strikes.
4. More high school students drop out of school to take jobs mowing lawns.

6. (10 points) What are the three functions of money? Which of these functions do the following satisfy, and which not?

1. A credit card
2. A subway token
3. A painting by Rembrandt

7. (10 points) Suppose UM-D engineers develop a method of producing automobile engines that are much more efficient, and that this new method is adopted by U.S. automobile manufacturers, who build new factories to utilize it.

1. How will this affect the country’s demand for investments?
2. Explain, and show on a graph, how this will affect the real rate of interest, and the national level of saving.

8. (10 points) Explain how each of the following will affect the monetary base, the money multiplier, and the money supply.

1. The Federal Reserve decreases the interest rate it pays banks for holding reserves
2. Rumors about a computer virus attack on ATMs increase the amount of money that that people hold as currency, rather than demand deposits.
3. The Federal Reserve sells bonds in open market operations.

The median on this exam was 65; the high was 88.

**Econ 301 Exam #2 Fall, 2013 Professor Twomey**

Please print your name on the back of the last sheet. Answer on these sheets, using the backs of the sheets if you need extra space. Be sure to label each axis on your graphs. Each question is worth 20 points.. Please ask for clarification if any question is unclear. Time: the entire class.

1. Identify the following with a sentence or at most two: (20 points)
2. Pigou effect
3. Structural unemployment
4. Purchasing power parity
5. Okun’s law
6. Monetary transmission mechanism
7. Consider a closed economy where the monetary authorities increase the money supply. Using both IS-LM and AS-AD graphs, explain and illustrate what happens to output, prices, and interest rates in the short and long runs.

What is meant by the term Liquidity Trap, and how is the above analysis changed when that exists? (no new graph needed).

1. A) The head of the alumni organization at TappaKegga High School did a study of what fraction of their alumni would lose their job in a given year, estimating it at 5%, and what fraction of their unemployed alumni would find a job in a given year, which turned out to be 25%. What is the average unemployment rate of TappaKegga’s alumni?

B) The point of departure for the short run aggregate supply curve is an asserted nominal wage rigidity. Identify and discuss real briefly three different explanations for that wage rigidity.

C) The textbook presents two standard interpretations of the causes of the Great Depression in the US in the 1930s. Identify those two hypotheses, mentioning in one sentence each what was the basic macroeconomic phenomenon that ‘caused’ each one.

1. Consider a short run IS\* - LM\* economy with floating exchange rates. Illustrate how the following phenomenon would move one or the other of those curves, explaining your answer in detail by reference to the graph of the underlying market in which it is derived – Keynesian cross or liquidity preference:
2. The demand for cash rises due to a perception of weakness in the supervision of banks

b. The country reduces its tariffs on imported products

c. World interest rates fall

5. We have studied two models of small open economies – the one in chapter 6 is referred to as a loanable funds market, while that from chapter 13 is a version of the IS-LM model. You can choose either model for this question, and your answer should state which one you’ve chosen.

* Suppose the government reduces its expenditures. The main question is, what will this do to net exports in the short run? Illustrate your answer with a graph, being sure to label each axis. Give a short explanation.
* In addition, what happens to the following variables in the short run? (Up, down, no change). No lengthy explanation necessary.

|  |
| --- |
| Aggregate Demand  Real GDP  Unemployment  Price level  Real Interest Rate  Exchange Rate  Consumption  Investment  National Savings  Private Savings |

Finally, for citizens in this country, will the change in the exchange rate that you have described make overseas tourism cheaper or more expensive?

The median on this exam was 83; the high was 93.

**Economics 301 Exam #3 Fall, 2013 Professor Twomey**

Please PRINT your name on the BACK of the last sheet. Answer on these sheets, using the flip sides if you need space. Please ask for clarification of any unclear question. Time: whatever you need, which should be less than two hours.

1. Identify the following with a sentence or at most two: (20 points)
2. Cost-push inflation
3. Taylor Rule
4. Capital budgeting
5. Natural rate hypothesis
6. (The three corners of) The impossible trinity

2 (20 points) a. Demographers predict that the fraction of the population that is elderly and non-working will increase over the next twenty years. What does the life-cycle model predict would be the influence of this demographic change on the national (private) savings rate? Explain briefly

b. According to the rational-expectations approach, if everyone believes that policy makers are committed to reducing inflation, the cost of reducing inflation – the sacrifice ratio – will be lower than if the public is skeptical about the policymakers’ intentions. Explain briefly why this might be true. Graph optional.

3. (15 points) Does monetary policy have a greater impact on an economy under fixed exchange rates or flexible exchange rates? Explain – Graph helpful, but not necessary.

1. (20 points) a. It is an election year and the economy is in a recession. The opposition candidate campaigns on a platform of passing an investment tax credit, which would be effective the year after she takes office. What impact does this campaign promise have on economic conditions during the current year? Explain briefly.

b. Suppose the stock market plunges. What influence will that have on investment, consumption and aggregate demand? Why? Should the Federal Reserve respond? Why or why not? If so, how?

1. (15 points) According to the Ricardian view of government debt, how does a debt-financed cut affect public (government) saving, private saving, and national saving, and AD?
2. (10 points) According to the model of the housing market developed in our text, how would/did the relaxation of credit controls on subprime borrowers - households diplomatically referred to as having questionable credit histories – affect the price of new houses? Explain briefly and illustrate with a graph.

The median on this exam was 78; the high was 97.

**Econ 301 Exam #1 Fall, 2012** Intermediate Macroeconomics Professor Twomey

Please PRINT your name on the BACK of the last sheet. Answer on these sheets, using the backsides if you need more room. The weight of each question is indicated. Please ask for clarification if the questions are unclear. Be sure to label the axes of your graphs. Time: the entire class. Good luck.

1. Identify the following with a sentence or at most two: (20 points)
2. Menu costs
3. Monetary neutrality
4. (What are the) three defining functions of money?
5. Fisher effect
6. Open market purchases
7. (15 points) Considering the loanable funds market in a classical model of a closed economy, explain and illustrate with a graph the effects of an increase in taxes, on the relevant macro variables, such as Y, C, S, r, prices, and I.
8. (10 points) Suppose the demand for money function takes the form (M/P)d = Y/(5i), where I is the nominal interest rate and Y is real GDP.
9. If Y grows at rate ‘g’ at what rate will the demand for real money balances grow (assuming I is constant).
10. What is the velocity of money in this economy?
11. If inflation is zero and nominal interest rates are constant, at what rate will monetary velocity change?
12. Suppose the neoclassical model is correct, that workers earn their marginal productivity. Consider the situation of two groups in the country, farmers and barbers. (10 points)
13. If farmers’ productivity has grown, what happens to their real wage?
14. Suppose barbers’ productivity is constant, as scissors and combs do not change much. If there is mobility between farms and barbershops, what should happen to the relative wages of farmers and barbers?
15. What does your answer to (b) imply for the price of haircuts relative to food.
16. Who benefits from technological progress in farming, farmers or barbers?
17. (15 points) What is the effect on the real exchange rate (appreciation or depreciation) if there is an increase in labor productivity in the export sector? What happens to NX, S, I, Y, r, and prices? Explain briefly, and illustrate with a graph.

6. (10 points) Suppose that after presidential elections, we have a drastic change in policy, and that the new president decides to tax checks written on bank deposits.

1. How should this ‘check tax’ affect the currency-deposit ratio?
2. With the textbook’s model of the money supply and money multiplier, how should this change affect the money supply? The money multiplier? Explain briefly.
3. (10 points) Consider a small open economy, in the textbook’s classical model. Suppose world interest rates fall. What should happen to this country’s net exports? Explain and illustrate with a graph.
4. (10 points) A farmer grows a bushel of wheat and sells it to a miller for $1. The miller turns the wheat into flour, and sells it to a baker for #3. The baker uses the flour to make bread, which is sold to an engineer for $6., and the engineer consumes it.
5. What is the value added by each person in this example?
6. What is the total contribution of this bread to GDP?

The median on this exam was 65; the high was 86.

**Econ 301 Exam #2 Fall, 2012**  Professor Twomey

Please PRINT your name on the BACK of the last sheet. Use the flip sides of these sheets if you need more space. The weights of each question are indicated. Please ask for clarification of any question that is unclear. On this exam, especially, it is important to **label each axis** on your graphs. Time: the entire class. Good luck!

1. Identify the following with a sentence or at most two: (20 points)
2. Efficiency wage
3. Okun’s Law
4. Liquidity trap
5. Monetary transmission mechanism
6. Impossible Trinity (draw the graph and identify the points)

2a.(15 points) Consider an isolated town where there is only one significant employer, and so all the local population works at this firm. Suppose that in any typical month, four percent of that firm’s workers lose their jobs, while twelve percent of those who are unemployed get a job. What is the equilibrium rate of unemployment?

b. In what direction will the equilibrium rate of unemployment change if there is introduced into this town an electronic service (e.g. Craig’s list) that improves information about employment opportunities? Explain briefly.

3.(10 points) The textbook discusses a few hypotheses/explanations of what caused the Depression of the 1930s. Identify and explain very briefly two (different versions) among these explanations.

4. (10 points) a. Suppose the government wants to raise investment but keep output constant (even in the short run). In the IS-LM model, what mix of monetary and fiscal policy will achieve this goal. Explain and illustrate.

b. In the early 1980s, the US government cut taxes (running a deficit) while the Fed pursued a tight monetary policy. In the short run, what effects will this combination of policies have? Explain and illustrate on a graph.

5. (10 points) Suppose the US is a closed economy, and that the Fed is considering two alternative monetary policies: (A) holding the money supply constant, while letting interest rates adjust, or (B) adjusting the money supply to hold interest rates constant.

If all shocks to the economy arise from shifts in the demand for money, which policy would better stabilize short run output? Explain and illustrate on a graph(s)

6. (20 points) Consider a small open economy using flexible exchange rates, where the monetary authorities decide to increase the money supply. Illustrate the short term impact of this action, with an IS\* - LM\* graph and an AS-AD graph. Indicate in this table how will this affect these variables: (Def is thegovernment deficit)

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Y | C | NX | e | r | U | Inv | Def | M/P | W |
|  |  |  |  |  |  |  |  |  |  |

7. (15 points) Suppose that as a result of an election, a candidate (and Congress) come to power who tighten environmental controls and reduce greenhouse emissions. Inevitably, such actions would have demand and supply impacts – but let’s focus on the impact of this ‘supply shock’.

Describe and illustrate the short run impact of this policy on an AS-AD graph.

Describe, and illustrate with a new graph or on the above graph, the options that are open to the government, in terms of removing the unwanted impacts of the new government’s policy.

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

**Econ 301 Intermediate Macroeconomics** Exam #3 Fall, 2012 Prof. Twomey

Please PRINT your name on the back of the LAST SHEET. You will LOSE POINTS if your name is visible anywhere else.

Please answer on these sheets, using the backsides if you need more space. The weight of each question is indicated. Please ask for clarification if the question is not clear. Time: 90 minutes, or whatever you need. Good luck.

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

A Secular Stagnation

B Capital Budgeting

C Ricardian Equivalence

D Lucas Critique

E Lean against the wind

1. Use the neoclassical model of investment to explain the impact of each of the following on the rental price of capital, the cost of capital, and therefore on investment. Explain each answer briefly. (10 points)
2. Laws prohibit the immigration of foreign workers, reducing the size of the labor force
3. Expansionary monetary policy lowers the real interest rate
4. Technological change makes home residences deteriorate more slowly.
5. (20 points) Describe the Life Cycle Hypothesis (LCH) of consumption (graph optional). In particular, how should a person’s MPC vary from the young age of just entering the labor force, to maturity, to retirement?

The textbook has a rather lengthy discussion of how empirical studies suggest that the LCH does not hold up well for youth and for elderly/retired people. Are the MPC’s of these groups higher or lower than predicted? Identify at least one explanation each that Mankiw offers for these two findings.

1. What is meant by the Taylor rule? It has been suggested that, even though it is not official policy, it might be a good indicator of current government policy? Is whatever branch of the US government it refers to, currently following what the Taylor rule advocates? Explain. (10 points)
2. (10 points) In the book’s discussion of information requirements for an efficient financial system, three problems are mentioned: asymmetric information, adverse selection, and moral hazard. Describe each one briefly.

Sam is trying to get a large advance to write a textbook. He knows, but the publishers don’t, that he did poorly on the writing portion of the SAT exam.

George has gotten a large advance to write a textbook. With the money in hand, he prefers to spend his time sailing rather than writing the book.

Brenda is buying a life insurance policy. She knows that members of her family tend to die young.

1. The textbook describes four motives, or reasons, for holding inventories. Describe three of them. (10 points)
2. (10 points) The textbook has an extensive discussion of the recent/current financial crisis in the U.S. Identify four people/institutions who Mankiw affirms should be blamed for this event.

Describe briefly the three policy responses to financial crises that are outlined in the book.

1. The media asserts that the US economy is facing a fiscal cliff, in that we have a law that obligates the government to have a balanced budget by next January 1, and if that goal is not achieved, there will be some automatic tax increases and spending cuts. The president is currently negotiating a solution with people from Congress. Presumably, part of the solution will be to ‘fudge the books.’ Another part of the solution will inevitably be some increases in taxes and reductions in expenditures. According to the Permanent Income Hypothesis, should we expect these latter changes to have large or small impacts on aggregate spending? Explain briefly. (10 points)

The median on this exam was 62; the high was 89.

**Econ 301 Exam #1** Intermediate Macroeconomics **Fall, 2011** Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these sheets, using the flip sides if you need more space. Questions are equally weighted. Please ask for clarification if any question is unclear. Time: the entire class. Good luck!

1. Identify the following with a sentence or at most two:
2. Fisher equation
3. Real money balances
4. Classical dichotomy
5. Constant returns to scale
6. The three defining functions of money
7. Consider the case of a Small Open Economy – let’s call it Korea. Now consider a before and after situation, where before they were protectionist (high tariffs), and after they adopted free trade. In the context of the SOE model as we have considered it, how would this action affect: domestic production, real wages, the real interest rate, consumption, investment, national savings, the real exchange rate, and net exports. Explain and illustrate your answer with one (or two) graphs.

3a. Economists distinguish between expected and unexpected inflation. Identify and explain real briefly two costs of expected inflation.

b. A technical issue for economists is the question of whether or not the CPI accurately measures inflation. Currently, many specialists believe that the CPI overstates inflation.

I. Why might it be the case that the CPI overstates inflation?

ii. Why might it be important to know if the CPI exaggerates inflation?

iii. What is Mankiw’s answer to the question, does the CPI overstate inflation?

4a State the assumptions for the model of the Small Open Economy

b. Consider the SOE called Winkman, where the velocity of money is initially constant, and the real GDP grows by 6% per year. If the stock of money grows by 14%, what is the rate of inflation?

If the real exchange rate is constant, what will happen to Winkman’s nominal exchange rate?

With that rate of inflation, and a world interest rate of 3 %, what is the nominal interest rate in Winkman?

If technological change allowed the velocity to increase at 2% a year, with GDP still growing at 6%, and money growing at 14%, what is the new rate of inflation in Winkman?

5a. In a small open economy, if the government raises taxes, what happens to national savings, the real interest rate, the real exchange rate, and net exports? Explain and illustrate your answer with a graph.

The median on this exam was 56; the high was 94.

Econ 301 Intermediate Macroeconomics **Exam #2 Fall, 2011** Professor Twomey

Please PRINT your name on the BACK of the last sheet. Do NOT put your name on this page. Answer on these sheets, using the flip sides if you need more space. Ask for clarification of any unclear question. The weights for the questions are indicated. Time: the entire class. Good luck.

1. Identify the following with a sentence or at most two (20 points):
2. Impossible Trinity
3. Pigou effect
4. “insiders” and “outsiders”
5. Liquidity trap
6. Okun’s Law
7. Explain rigorously why in the Mundell-Fleming model, the AD curve has a negative slope. (10 points)
8. (20 points) A. Identify and explain briefly the three reasons usually given for rigidity of real wages, job rationing and structural unemployment.

B. Unemployment rates are typically higher in Europe than they are in the US. What might be some explanations of this fact, based on the search theory and frictional unemployment? Explain briefly.

1. Consider a closed economy. Suppose the central bank reduces the money supply by a significant amount.
2. Explain and show on an AS-AD graph the short run and long run equilibrium points of output and prices.
3. For the short run and the long run, what happens to the following variables? (The long run comparisons are relative to the initial situation. You can indicate your answer with an arrow, or words (up, down, no change).

|  |  |  |
| --- | --- | --- |
|  | Short  run | Long Run |
| Prices |  |  |
| Output |  |  |
| Unempl. |  |  |
| r |  |  |
| W/P |  |  |
| wages |  |  |

1. (10 points) Suppose that Michigan and Ohio were independent countries, but that they used currencies that were completely convertible – i.e. perfectly fixed exchange rates.

If Ohio suffers from a recession, should its state government use monetary or fiscal policy to stimulate their economy? Explain briefly. Graph optional.

1. (20 points) Suppose a small open economy with a floating exchange rate is in a recession, and also assume that it has balanced trade. If policymakers want to reach full employment while maintaining balanced trade, what combination of monetary and fiscal policy should they pursue? Explain and illustrate with a graph.

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

Econ 301 Intermediate Macroeconomics **Final Exam Fall, 2011** Professor Twomey

Please PRINT your name on the BACK of the last sheet. YOU WILL LOSE CREDIT IF IT IS VISIBLE ANYWHERE ELSE.

Answer on these sheets, using the back sides if you need more space. The for each question is indicated. Please ask for clarification if any question is unclear. Time Two: hours.

1. (20 points) Identify the following with a sentence or at most two:
2. TARP
3. Sacrifice ratio
4. Financial intermediation
5. Cyclically adjusted budget deficit
6. Stock out avoidance
7. (15 points) One of the central changes in macroeconomics over the last few decades was the incorporation of expectations in our models.
8. What is the difference between rational and adaptive expectations?
9. How and why would should the adoption of the Taylor Rule by the Fed affect macroeconomic behavior?

3. icardian equivalence is often described as an extreme version of rational expectations. Explain the major message from Barro’s version of Ricardian equivalence, relating it to rational expectations.

(20 points) a. In a simple money multiplier model, suppose that the credit/deposit ratio is 0.2, and that the required reserve ratio is 0.05. What is the size of the money multiplier? If the central bank were to engage in an open market purchase of $10 billion, by how much – and in what direction – would the money supply change? (If you didn’t bring a slide rule, leave your answer in the form of 6/2 or whatever)

b. According to the Baumol-Tobin model, how will the following affect the demand for money:

i an increase in personal income

Ii an increase in ‘shoe leather costs’ of trips to the bank

Iii an increase in interest rates on deposits in banks

1. (20 points) a. Let’s look at the MPC and the APC of retired people, who still have income from social security and interest on accumulated savings. According to the life cycle hypothesis, should their MCP and APC be high or low, compared to national average for all people? Explain

Empirical studies indicate that the above theoretical prediction is wrong. Identify and explain briefly two reasons that have been suggested to account for this.

b. Another well-substantiated empirical finding regarding consumption is that the cross sectional (everybody at the same time) MPC is less than the long term (entire group over time) MPC. Explain briefly how Friedman’s permanent income hypothesis can explain this finding.

5. (25 points) a. The neo-classical model of investment includes several variables that affect investment. Identify four, and state how an increase in that variable would affect investment.

b. According to the model described as Tobin’s q, how should an increase in the stock market affect business

investment? Explain real briefly.

According to the textbook model of the housing market, how will each of the following affect the price of houses?

The elimination of the tax deduction for interest payments on mortgages

An increase in interest rates on mortgages

A population boom, such as occurred in the US after WWII.

The median on this exam was 61: the high was97.

Econ 301 Intermediate Macroeconomics **Exam #1 Winter, 2011** Professor Twomey

Please PRINT your name on the back of the last sheet. Answer the questions in the spaces provided, using the backs of these sheets if necessary. Please ask for clarification if the question is unclear. Questions are equally weighted. Be sure to label each axis on your graphs. Time: the entire class. Good luck!

1. Identify the following with a sentence or at most two:
2. Labor force participation rate
3. Cobb-Douglas production function
4. Public Savings
5. Marginal Product of Labor
6. Classical dichotomy
7. In our textbook’s chapter on closed economies, there is a graph containing data for Britain in the 19th century, of military spending/GDP compared to (nominal, but by assumption real) interest rates. The point of departure of the argument is that in periods of war, significant increases in military spending will increase overall government spending, causing deficits. Explain, and draw a graph of, the standard textbook analysis of the impact of increased government spending on interest rates. Did the data in the textbook’s graph support the theoretical analysis? Discuss.
8. According to the neoclassical theory of distribution, the real wage earned by any worker equals that worker’s marginal productivity. Let’s look at two groups – farmers and barbers.
9. Over the past century, the productivity of farmers has risen substantially because of technological progress. What should have happened to their wages?
10. In contrast, for a long time, barbers continued to use the same tools, so their productivity was constant. What should have happened to their real wages?
11. Suppose workers can move freely between being farmers and being barbers. What would this mobility imply for the wages of farmers and barbers?
12. What do these answers imply for the price of haircuts, relative to the price of food?
13. Who – if anybody – benefits from technological change in farming; farmers or barbers, both or neither? Explain.
14. What are the three defining functions of money?

There is significant interest in the harm, or cost of inflation. Economists distinguish between expected and unexpected inflation. What are the major costs of expected inflation?

Suppose the economy has a stable demand for money and a constant velocity of money, and that the money supply is growing at 10 percent per year, while real GDP (and output) are growing at four percent per year. What should be the rate of inflation? Explain.

1. Suppose that several foreign countries begin to subsidize investment by instituting an investment tax credit.
2. What happens to world investment demand as a function of the world interest rate?
3. What happens to the world interest rate?
4. Consider ‘our’ country, which is a small open economy. As a result of those external changes, what happens to investment in our country? Explain, and illustrate with a graph.
5. What happens to our trade balance?
6. What happens to our real exchange rate? Explain, and illustrate with a different graph.

The median on this exam was 77; the high was 98.

Econ 301 Intermediate Macroeconomics **Exam #2, Winter 2011** Professor Twomey

Please PRINT your name on the BACK of the LAST SHEET. Answer on these sheets, using the flip sides if you need space. Please ask for clarification if any question is unclear. Questions are equally weighted. Be sure to label each axis on your graphs. Time: the entire class. Good luck!

1. Identify the following with a sentence or at most two: (20 points)
2. Pigou effect
3. Efficiency wage
4. Liquidity trap
5. Frictional unemployment
6. Dollarization
7. (20 points) Define the LM curve. Explain rigorously, using a graph, why the LM curve in a closed economy has an upward slope.

b. The textbook has a discussion of how the impact of an increase in government spending will depend on what type of monetary policy is being followed – the two options are: fixed money supply or fixed interest rate. Under which option will expansionary fiscal policy have the bigger impact? Explain, and illustrate with one or two graphs.

1. (20 points) For a closed economy, explain and illustrate with an IS-LM diagram the short-run and long-run effects on national income (real GDP), the interest rate, the price level, consumption, and investment, of the following:
2. A decrease in personal income tax rates
3. An increase in the money supply

4. (20 points) a. Empirical data indicate quite clearly that unemployment in western Europe is higher than it is in the US. Identify and explain briefly two different reasons that have been offered to explain this finding.

b. Suppose that the rate of job separation in an economy is 6%, and the rate of job finding is 12%. What is the steady state rate of unemployment?

1. (20 points). Use the Mundell-Fleming model of a small open economy to predict what would happen to aggregate income (GDP), the exchange rate, and the trade balance, under both fixed and flexible exchange rates, in response to the following shocks:
2. A unexpected decline in the supply of money
3. A decline in business taxes leads companies to want to invest more
4. As a result of an election, the party that comes to power is widely perceived to be more efficient than its corrupt predecessor, lowering this country’s risk premium (Answer only for flexible exchange rates).

The median on this exam was 54; the high was 85.

Econ 301 Intermediate Macroeconomics **Third Exam Winter, 2011** Prof. Twomey

Please PRINT your name on the BACK of the last sheet. You will lose credit if it appears anywhere else.

Answer on these sheets, using the flip sides if necessary. Questions are equally weighted. 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)
2. Hysterisis
3. High powered money
4. Lucas Critique
5. Transaction theories of money demand
6. Time inconsistency
7. Demographers predict that over the next twenty years, the fraction of the US population that is elderly will increase. What does the life-cycle model predict will be the impact of this demographic change on the personal savings rate? What would be the impact on government savings, and on the national savings rate?

b. Explain real briefly why in virtually all our models, we have long run monetary neutrality, but not in the short run.

1. A. The textbook’s discussion of countercyclical policy and the sacrifice ratio concludes: “These findings indicate that reducing inflation always has some cost but that policies and institutions can affect its magnitude.” Identify one policy and one institution that will have this effect, and explain why, briefly.

B . According to Barro’s modernization of the Ricardian view of government debt, how does a debt-financed tax cut affect public saving, private saving, and national saving?

1. According to the textbook’s model of the housing market, how will an increase in real GDP affect investment in new housing? (graphs optional)

According to the Tobin’s q model, how will an increase in stock market prices affect private sector investment?

In the neo-classical model of investment, what is the role of changes in real GDP and in the stock market affect investment?

Is the neo-classical model of investment fundamentally different from the first two mentioned models? Explain briefly.

1. Consider a model of the money multiplier, where the credit ratio is 0.2, and the required reserve ratio is 0.1, and banks do not keep excess reserves.

If the central bank engages in open market purchases worth $40 billion, what will be the sign and magnitude of the impact on the money supply?

Illustrate the impact of this action by the Fed, on inflation and unemployment, under two opposite assumptions: the monetary action was announced and completely expected, and then when the monetary action was a complete surprise.

b. On an entirely different subject; the textbook mentions several measurement problems with regard to the government deficit. Identify and explain briefly two of them.

The median on this exam was 56; the high was 77.

**Fall, 2009 Exam #1** not available.

Econ 301 Intermediate **Macroeconomics Exam #2 Fall, 2009** Professor Twomey

Please PRINT your name on the BACK of the last sheet. You will lose credit if it appears anywhere else.

Answer on these sheets, using the flip sides if necessary. Please ask for clarification if any question is ambiguous. BE SURE TO LABEL EACH AXIS on your graphs. Time: the entire class. Good luck.

1. Identify the following with a sentence or at most two (20 points)
2. Subprime borrowers
3. Pigou Effect
4. Okun’s Law
5. Federal Funds Rate
6. Liquidity Trap
7. (10 points) Employment rates –however measured – are lower in Europe than in the U.S. Identify and discuss briefly three potential explanations.
8. (20 points) Consider the Mundell-Fleming model of a small open economy. Suppose the country reduces government expenditures. For both situations of fixed exchange rates and flexible exchange rates, explain and illustrate (separate graphs) how this will affect output, domestic interest rates, prices, and net exports.
9. Two easy questions for five points.
10. What is meant by the term ‘monetary transmission mechanism,’ and what is this mechanism in the IS-LM model?
11. What is meant by ‘leading indicator?’ Give three examples.
12. (15 points) Explain rigorously, and illustrate with a graph, the impact on the LM curve of an increase in the demand for money, caused, let’s say, because of a change in government regulation.
13. (15 points) a. Explain and draw a graph of the textbook story of the short run and long run impacts that occur when the economy experiences an increase in aggregate demand. What is the key consideration of the transition from short run to long run equilibrium?
14. Government response to macroeconomic shocks can either be accommodative or not (non-intervention). With regard to non-accommodative response, what important macroeconomic difference is there in terms of the source of the shock, from the demand side or the supply side? (Assume the shock is permanent). Graph optional.
15. (15 points). Suppose that, due to some political event, a country’s risk premium declines. Explain and illustrate with a graph what will happen to that country’s exchange rate.

The high on this exam was 100; the median was 72.

Econ 301Intermediate Macroeconomics **Final Exam Fall, 2009** Professor Twomey

Please PRINT your name on the back of the last sheet. You will LOSE CREDIT if it appears anywhere else. Answer on these sheets, using the backsides if you need space. Please ask for clarification if any question is unclear. Good luck!

1. Identify the following with a sentence or at most two: (20 points)
2. Sacrifice ratio
3. Time inconsistency
4. Efficient market hypothesis
5. Tobin’s q
6. Imperfect information model
7. (20 points) Will an open market purchase lead to an increase or a decrease in the money supply? If the currency ratio is 40% and the required reserve ratio is 5%, by how much does an open market purchase of $50 billion change the money supply?

How should the introduction and increased usage of credit and debit cards affect the money multiplier? Explain briefly.

Suppose that financial regulation has led to a reduction in the number of bank branches in our society. By itself (i.e., ignoring other basic factors that may have contributed to that regulation or that reduction), how will this reduction in bank branches affect the money supply? Explain briefly.

1. (10 points) Demographers predict that the fraction of the population that is elderly (retired) will increase over the next 20 years. What does the life-cycle hypothesis predict will be the influence of this the demographic change on the national saving rate? Explain briefly.
2. (10 points) Suppose that, in an election year, the opposition candidate campaigns on a platform of instituting an investment tax credit, the year after the election. If this candidate has a decent chance of winning, what impact will that promise have on investment during the current year? Explain briefly.
3. (10 points) Explain whether borrowing constraints increase or decrease the potency of fiscal policy to influence aggregate demand, in each of these cases:
4. A temporary tax cut
5. An announcement of a future tax cut
6. Suppose that the economy is initially at long run full employment equilibrium. Then the government unexpectedly increased Federal spending, without raising taxes, thereby causing a deficit.

Explain how this will affect real GDP, unemployment, inflation, and interest rates, using the three graphical techniques of IS-LM, AD-AS, and the Philips curve. (20 points)

7 (10 points) What is meant by inflation targeting, by the Taylor rule, and how do these two concepts differ between each other?

The high on this exam was 97; the median was 81.

Econ 301 **Fall, 2008 Exam #1** Prof. Twomey

Please PRINT your name on the BACK of the last sheet. Write your answers on these sheets, using the backsides if you need more space. Questions are equally weighted. Please ask for clarification if the question is unclear. Be sure to label each axis on your graphs. Time: the full class. Good luck.

1. Identify the following with a sentence or at most two:
2. Official settlements balance
3. User cost of capital
4. stagflation
5. Marginal revenue product of labor
6. Tobin’s q
7. Explain briefly what is meant by Ricardian equivalence, and what would be the diametrically opposite situation, where Ricardian equivalence is not at all true.

Consider an economy with no foreign trade (a closed economy) where full employment is always true, and suppose that its government decided to raise taxes. For the two situations where Ricardian equivalence is true, and where it is not, explain how this tax increase would affect the real interest rate and the levels of national saving and investment. Illustrate your answer with a graph.

3a. Suppose that under a new law all businesses must pay a tax equal to ten percent of their sales revenue. Assume that this tax is not passed on to consumers, but that indeed the prices consumers pay after the tax is imposed are the same as before. What is the effect of this tax on labor demand? If the labor supply is unchanged, what will be the effect of the tax on the level of employment, and the real wage? Illustrate your answer with a graph.

b. Suppose a country loses much of its capital stock to a war.

i) What effects should this have on the country’s current employment, output, and real wage? Explain briefly (graph not required).

ii). What effect will the loss of capital have on the level of desired investment?

3a. Illustrate with an S-I graph the situation of a small open economy which has been borrowing

on the international market for some time.

1. Suppose that technological change raises the expected future marginal product of capital.

Explain and illustrate on your graph how that change would be expected to affect the country’s

equilibrium level of domestic savings, investment, interest rate and current account.

1. Consider now a ‘before and after’ case where in the ‘before’ case the country is populated by

a large number of middle aged working people, but in the ‘after’ case it has a large number of

retired people. What will be the difference in this country’s saving, investment, interest rate,

and current account?. Illustrate with a separate graph.

5a. How would each of the following affect the current level of full employment? Explain each answer briefly.

i) Many new immigrants enter the country.

ii) New teaching techniques improve the educational performance of high school seniors.

b) Consider the country of Strangeville, where production consists of only three items. The quantities produced and prices, in year 1 and year 2, are given below.

What is the value of nominal GDP in the two periods?

Year 1 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Year 2 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Taking year 1 as the base year, what is the value of the price index in year 2? \_\_\_\_\_\_\_\_\_\_\_\_

What was the amount of inflation between year 1 and year 2? \_\_\_\_\_\_\_\_\_\_\_\_\_\_

What is the value of real GDP in year 2? \_\_\_\_\_\_\_\_\_\_\_\_\_

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Year 1** |  |  |  |  |
|  |  |  |  |  |
| Product | Quantity |  | Price |  |
|  |  |  |  |  |
| Potatoes | 15 | tons | $20/ton |  |
| Alligators | 5 | animals | $40/animal |  |
| Slingshots | 600 | packages | $0.75/package |  |
|  |  |  |  |  |
| **Year 2** |  |  |  |  |
|  |  |  |  |  |
| Potatoes | 20 | tons | $30/ton |  |
| Alligators | 8 | animals | $50/animal |  |
| Slingshots | 400 | packages | $1/package |  |

The high on this exam was 93: median on this exam was 68.

Economics **301Exam #2 Fall, 2008** Professor Twomey

Please PRINT your name on the BACK of the last sheet. Write on these sheets, using the backsides if you need space. Be sure to label each axis on your graphs. The weight of each question is indicated. If a question is unclear, please ask for clarification. Time: the entire class. Good luck.

1. Identify the following with a sentence or at most two: (20 points)
2. Income elasticity of the demand for money
3. Real balances
4. Coincident variables
5. Open market operations
6. The (three identifying) functions of money
7. (15 points) Using an IS-LM model (assuming prices constant, and ignoring changes in the labor market), explain and illustrate with a graph how a decrease in government expenditures will affect the real interest rate and real GDP.

Explain briefly (no graph nor equation necessary) how the change in government spending will in turn affect:

1. Personal savings
2. National Savings
3. The government deficit
4. Private sector investment

e. The supply of money

1. (20 points) Draw a graph of equilibrium in the money market.

In terms of this graph, on what two variables does the demand for money depend?

Identify (don’t explain) two other variables that affect money demand.

Explain briefly why financial deregulation might cause instability in the demand for money.

Define the LM curve. Using another graph of the money market, derive and explain rigorously

why the LM curve has a positive slope.

What is the key equation of the quantity theory of money? Compare the quantity theory approach to that of the demand for money function used above, in terms of assumptions and predictions.

1. (15 points) Our textbook has a discussion of the post-1973 slowdown in productivity growth, and of the more recent productivity increase, or surge. What is meant by productivity?

Identify and explain briefly two explanations for the post 1973-slowdown.

Identify and explain briefly at least one explanation for the recent increase.

1. (10 points) In the discussion of business cycles, two terms are used, pro-cyclical and counter-cyclical. Explain briefly the distinction between these two terms.

Empirically, are the following variables pro-cyclical or counter-cyclical?

1. Unemployment

b. Industrial production

* 1. Growth of the money supply

d. Labor productivity

1. (20 points) Using the aggregate supply / aggregate demand analysis, explain and show on a graph how an increase in the quantity of money will affect – both short run and long run – the level of prices and the level of real output.

In addition, explain (graph optional) how that increase in the quantity of money will affect, in both the short run and in the long run:

1. The real interest rate
2. Consumption
3. The government deficit
4. Employment

The high on this exam was 89; the median was 63.

Econ **301 Fall, 2007 Exam #1** Professor Twomey

Please print your name on the BACK of the LAST sheet. Answer on these sheets, using the backs if you need more space. Questions are equally weighted. 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):
   1. Loanable funds
   2. Real exchange rate
   3. Classical dichotomy
   4. Quantity theory
   5. Cobb-Douglas production function
2. (20 points) Consider a classical model of an economy without foreign trade. From an initial situation of equilibrium, the government raises expenditures by $100 billion.
   * 1. Explain and illustrate with a graph, what happens to the real interest rate.

Suppose the marginal propensity to consume is 0.8, what is the magnitude and direction of change in the following?

* 1. Investment
  2. Private saving
  3. Public saving
  4. Private consumption

3aSuppose a small closed economy where the classical assumptions apply. In addition, the velocity of money is rising by a steady one percent a year, nominal interest rates are seven percent, and real GDP grows by 4 percent annually. The central bank determines the growth of the money supply at seven percent a year. What is the rate of inflation, and what is the real interest rate?

b. Identify two costs of expected inflation, and one cost of unexpected inflation.

c. Identify the three defining functions of money.

1. Consider now the classical model of a small open economy. Suppose taxes increase in this country. What is the direction of change (if any) to: (illustrate the general situation with one graph).
2. domestic personal savings
3. domestic business investment
4. real wages
5. The government deficit
6. Domestic real interest rate
7. Net exports
8. Capital inflows
9. Consider again the case of a small open economy in the classical world. Draw a graph illustrating the determination of the equilibrium real exchange rate, identifying the lines of the graph.

How will the following affect the equilibrium real exchange rate? Explain briefly.

* 1. The country’s government decides to lower spending, without changing taxes.
  2. World real interest rates rise.

c. The country’s inhabitants decide to save less for the future.

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

Econ 301 Fall, 2007 Exam #2 Professor Twomey

Please PRINT your name on the BACK of the LAST SHEET. You can use the backs of these pages if you need space. The weight of each question is indicated. Please ask for clarification if a question is unclear. Also, be sure to label the axes on your graphs. Time: the whole class. Good luck!

1. Identify the following with a sentence or at most two (20 points)
2. Structural unemployment
3. Impossible trinity
4. Okun’s Law
5. Efficiency wage
6. Risk premium

2. (10 points) There is debate about what a reduction in the supply of money will do to interest rates. What is the standard answer from the IS-LM model (graph optional)?

What is meant by the Fisher effect, and how might it modify the above answer? Explain briefly.

1. In a small open economy with a flat aggregate supply curve and with flexible exchange rates, how will an increase in taxes affect the following variables? Draw one graph to illustrate the answer. (20 points)

i Real income

ii. Private Sector Investment

iii. Private Sector Consumption

iv. the real interest rate

v. the nominal exchange rate

vi. The price level

vii. Government spending

vii. The government deficit

1. (10 points) There has been much discussion about differences in unemployment rates between the U.S. and Europe. Identify and discuss three different factors that have been proposed to explain why US rates are lower.

5. Explain and illustrate - on parallel graphs – how protectionism, what our text calls import restrictions – will affect unemployment, under fixed exchange rates and under flexible exchange rates. (15 points)

6. (10 points) Our textbook uses the IS-LM framework to discuss several explanations for the Great Depression of the 1930s. Two of them might be labeled the spending hypothesis, and the monetary hypothesis. Explain each of these briefly – no graph necessary.

7. (15 points) Consider how the goals of the Fed might affect its response to shocks to the economy. Let’s identify Fed B as being solely interested in avoiding inflation, and Fed G as being focused on output and employment. Explain and illustrate with (the closed economy version of IS-LM) how would each of these Feds might respond to:

* 1. An exogenous decrease in the demand for money, due to the introduction of electronic payments
  2. An decrease in federal government expenditures due to the election of a fiscal conservative as president.

The median on this exam was 68; the high was 97.

Econ 301 Intermediate Macroeconomics Exam #3 Fall, 2007 Professor Twomey

Please PRINT your name on the BACK of the last sheet. Answer on these sheets, using the backsides if needed. Please ask for clarification of any unclear question. Questions are equally weighted. Time: whatever it takes, which should be less than 1 1/2 hours. Good luck!

1. Identify the following with a sentence or at most two
2. Volcker disinflation
3. High powered money
4. Inventories as a factor of production
5. Transitory income
6. Inside lag

2a. Consider an economy where the ratio of cash to demand deposits is 0.1, and the required reserve ratio is 0.05. What is the size of the money multiplier?

If the Fed lowers the required reserve ratio to 0.04, what happens to the money multiplier?

b. The Baumol-Tobin model of cash management analyzes the costs and benefits –tradeoff- of holding cash. What economic factors give rise to the cost, and to the benefit?

c. The textbook analyzes the ‘Demise of the Monetary Aggregates.’ What is meant by this phrase, and what is the major reason for it to occur?

- How might the demise of monetary aggregates affect the major result of the Baumol-Tobin model? Explain briefly.

3.Explain briefly, and illustrate with a graph, what is meant by the ‘life cycle hypothesis’.

In this model, if the level of consumption is supposed to be constant over time, why isn’t the saving rate?

What is meant by the term savings constraint, and how might it affect the predictions of this model? On what socio-economic group(s) might these constraints be expected to have the biggest impact?

Empirical studies show that the MPC of elderly people is rather low. How does this finding affect the prediction of the life-cycle model?

4a. It is an election year, and the economy is in a recession. The opposition candidate campaigns on a platform of passing an investment tax credit, which would be effective the next year (after she takes office). What impact does this campaign promise have on economic conditions during the current year?

b. Our textbook provides some data that is consistent with the statement that inventory investment is equal to one sixth of the increase of income. Would the following be expected to increase or decrease that fraction (1/6):

1. interest rates rise
2. the economy shifts from producing industrial products to the production of services
3. successful macroeconomic policy lowers cyclical fluctuations of the national economy

c. Suppose Tobin’s q has been rising the last year and a half. What would be the corresponding prediction about investment?

5a. What is meant by the ‘sacrifice ratio’?

What is the essential difference between ‘rational expectations’ and ‘adaptive expectations?

In which case would we expect the sacrifice ratio to be larger: if expectations were rational or if expectations were adaptive? Explain.

b. What is inflation targeting?   
What are the differences between inflation targeting and Taylor’s rule?

c. With the ultimate goal of getting good policy here in the U.S., two suggestions have been made; have the Central Bank follow a rule, or give the Fed political independence. Are these the same recommendations? If not, how are they different, and which one would be more beneficial? Explain your answer briefly.

The median on this exam was 69; the high was 96.

Econn 301 Exam #1 Fall, 2005 Professor Twomey

Please write your name on the back of the last sheet. Answer on these sheets, using the flip sides as necessary. Please ask for clarification of any question that is unclear. Time: the entire class. Good luck!

1. Identify the following with a sentence or at most two (20 points):
   1. Okun’s Law
   2. Constant returns to scale
   3. Shoe leather costs
   4. Law of one price

e. Classical dichotomy

2. (20 pts.) Consider the classical model of a closed economy.

Suppose that taxes are increased. Draw a graph illustrating the effects on the macroeconomy,

and explain in a few words the effects on:

The real interest rate

Real GDP

The price level

Consumption

The government deficit

Real wages

Private Sector Investment

National Savings

Employment

Nominal interest rate

3 (20 points) a. If the velocity of money is constant and the nominal money stock increases at 10 % per year, while real GDP grows by 4 % per year, what is the level of inflation?

In that situation, if the real rate of interest is 3%, what is the nominal rate of interest

b. Fill in the blanks in the accompanying table:

What is the base year?

What is the rate of inflation between periods 4 and 5?

4a (15 points). Suppose that an increase in consumer confidence raises consumers’ expectations of future income and thus the amount they want to consume today. In a closed economy, how would this change in consumption affect the level of investment, and the real interest rate? Illustrate your answer with a graph.

B (5 points). The textbook has a brief discussion of the issue of whether of not the Consumer Price Index (CPI) overstates inflation.

What reasons are mentioned to motivate this hypothesis

Why might this be important?

What is the book’s verdict?

5 (15 points) i. Consider now a situation of a small open economy. Suppose that the country lowered tariffs, and its imports increased. What would be the impact of this change on the real exchange rate? Illustrate with another graph. Will overseas tourist travel by people of this country now be more expensive, or less expensive?

(5 points) ii. There is an important issue of the distributional impact of unexpected inflation--who is better off, and who is worse off.

In the following sets of pairs of economic groups, indicate who might be hurt by unexpected inflation, and why they might be hurt.

1. borrowers or lenders
2. Workers with or without COLAs
3. Home mortgage holders with or without flexible rate mortgage loans.
4. A low-skilled worker whose job does not require much training, or a high skilled worker whose

position requires seniority in a firm.

The median on this exam was 68. The high was 87

Econ 301 Exam #2 Fall, 2005 Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these sheets, using the flip sides if necessary. The weights of the questions are indicated. Please ask for clarification of any question that is unclear. Time: the entire class.

1. Identify the following with a sentence or at most two: (20 points)
2. IS\* curve
3. Theory of liquidity preference

c. Discouraged workers

* 1. Monetary transmission mechanism
  2. Efficiency wage

2. (15 points) Consider a standard short run version of the closed economy IS-LM model. Suppose that political events lead business decision makers to become less optimistic about the economy, and they reduce desired investment. Explain and illustrate on the IS-LM graph how this will effect the economy.

b. Explain very briefly how this will affect:

i. Personal Consumption

ii. Government’s tax revenue

iii. prices

iv. the quantity of money

v. real GDP

3. Our textbook contains the phrase “accommodating an adverse supply shock. “ What is a supply shock, what does it mean for it to be “adverse,” and what are the arguments for and against “accommodating” an adverse shock. Illustrate your answer with a graph. (10 points)

4. Use the Keynesian cross diagram to illustrate that the spending multiplier associated with an increase in government spending is greater than one. (10 points)

5.Suppose that Congress passes legislation making it more difficult for firms to fire workers (e.g. requiring severance pay to dismissed workers). Will this increase or decrease the rate of job separation? Considering the effect of this impact by itself, (that is ignoring the effect on job search), how will this change affect the natural rate of unemployment? Explain briefly. (10 points)

6. (15 points) What is meant by the “Small Open Economy” model? What are its key assumptions?

In this model, what would be the short term effects on the major macroeconomic variables if a country were to increase its exports as the result of successful negotiations for a Free Trade Agreement? (ignore potential effect on imports). Illustrate with a graph.

7. (10 points) The essence of our vision of the process of passing from the short run to the long run is that prices will change, thereby changing other variables in the economy. Suppose that for some reason AD has increased and the economy finds itself with excess production. Explain what happens as prices increase, to bring the economy back to full employment. Illustrate with a graph or two.

8. (10 points) Consider the issue of how the goals of the Fed might influence its response to shocks. Suppose Fed A cares only about keeping the price level stable, and Fed B cares only about keeping output and employment at their natural rates. Explain and illustrate with a graph how each Fed would respond to an exogenous decline in the demand for money, caused by the expansion of the use of electronic payments systems.

The median on this exam was 78. The high was 94.

Econ 301 Exam #3 Fall, 2005 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 of any question that is unclear. Time: ninety minutes. Good luck.

1. Identify the following with a sentence or at most two: (20 points)
   * 1. Time inconsistency
     2. Lucas Critique
     3. Near Money
     4. Sticky Price Model
     5. Tobin’s q

2a. In the standard money supply model, if the reserve deposit ratio is 0.10, and the currency deposit ratio is 0.5, by how much will an open market purchase of $5 billion affect the money supply?

Illustrate the impact on the national economy of that change in the money supply, using either an AD-AS framework, or some version of the IS-LM model.

b. For the last couple of decades, the US economy has undergone a process of financial deregulation, inspired partly by technological change, and partly by an ideological preference for free markets. It is often the case that microeconomists believe that greater reliance on free markets increases stability. Has that happened with the demand for money? Explain.

3. Short answers.

1. What is meant by the “sacrifice ratio?”

Explain the theoretical position that claims this will be higher in slow deflations.

1. What is the difference between the “Taylor Rule” and the “zero inflation rule?”

The argument is made that the actions of the Fed under Alan Greenspan have fairly closely duplicated the Taylor rule. What might be some considerations in favor of following a rule as devised by Taylor, versus a discretionary system under which “Greenspan rules.”

1. The textbook’s discussion of government debt discusses three measurement problems: measurement, capital assets, and uncounted liabilities. Explain briefly each one.

4 i. The standard story in the first part of our textbook is that the effect of an increase in taxes would be to lower private sector consumption, by some multiplier—call it “z”. How do the following considerations change our prediction of the size of the multiplier “z”:

* 1. People’s expectations are forward looking (perhaps “rational”) instead of regressive
  2. Ricardian equivalence holds
  3. Banking inefficiencies cause there to be a borrowing constraint for many people

ii). Economists who study consumption of elderly (retired) people have found that the elderly do not save as much as the life cycle model predicts. Identify and explain briefly two standard explanations of this finding.

5a. In addition to economic factors like interest rates, economists argue that demographic factors in a society also affect investment. Explain briefly.

b. Our textbook identifies four reasons why firms hold inventories. Identify and explain two of them.

1. State the basic formula of the accelerator model, identifying each variable
2. Should the instability associated with the accelerator be bigger or smaller if: (and why?)
3. i) the main productive sector of the economy shifts from manufacturing to services

ii) It takes longer than one year to build/produce the capital (or inventory)

iii) Uncertainty in the economy declines, due to better government policy.

The median on this exam was 65. The high was 94.

**Econ 301 Exam #1 Fall, 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) Labor force participation rate

b) Total factor productivity

c) Okun’s law

d) What is the difference between exogenous and endogenous variables?

e) Classical dichotomy

2a. Consider the Solow growth model, in which a country is at equilibrium on its balanced growth path. Explain in words–no graphs or formulas are necessary–what happens if that country’s savings rate declines.

b. What is meant by the word procyclical?

Our textbook presents data on several variables–which of the following are procyclical?

A) Interest rates

B) Employment

C) Inflation

D) Money Supply

3a. The textbook’s analysis of the long run effects of monetary and fiscal policy on GDP is based on graphs which posit a relationship between interest rates and consumption, investment, and net exports. For two of those three variables, explain why an increase in interest rates would affect it, and in which direction.

b. What is meant by the efficiency wage?

Identify and explain briefly two explanations for the existence of efficiency wages

c. When efficiency wages are widespread in the economy, will the natural rate of unemployment be larger or smaller? Explain briefly.

4a. In discussing labor supply (with respect to real wage), the textbook speaks of an income and a substitution effect. Explain briefly what is meant by each of those terms

b. The textbook suggests that the effects of those two factors (income and substitution effects) basically cancel each other out, empirically. What important supply side proposition is derived from that finding? Explain and illustrate with a graph.

c. Write the formula for the standard textbook demand for money, defining each of the terms.

5a. Suppose that over a generation the annual growth rate of capital is 5 percent, the growth rate of employment is 4 percent, and the average growth rate of income is 7 percent. Use the coefficients of the growth model in the text

What is the growth rate of technology?

If a reduction in government regulations increases investment, so that capital is now growing at 6 percent, by how much does the growth rate of income change

b. What might be two things that the government could do (or undo) that might make the rate of growth of technological change.

The median on this exam was 70. The high was 90.

**Econ 301 Exam #2 Fall, 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) Real business cycle

b) Phillips curve

c) IS curve

d) Marginal propensity to import

e) Accommodative policy

2. Consider the standard IS-LM analysis of the short run (one period) impact of a change in an autonomous variable. Suppose that, due to increased investor confidence, there is an increase in the autonomous component of investment. Illustrate that change on an IS-LM graph, being sure to label the axes..

Then, explain (graphs optional) how that will change: the amount of savings, tax revenue, net exports, the government’s budget (surplus or deficit), unemployment, and the quantity of money.

3a. State in words (formula optional) why the open economy Keynesian multiplier is smaller in size than the closed economy multiplier.

b I. Is Monetary policy more effective if the IS curve is steep or flat? Explain, illustrating your answer with one or two graphs.

b ii. Our textbook mentions the natural rate property, and illustrates it both with a formula and with a graph. Explain what is meant by this term, using either the formula or the graph.

4. Is the LM curve steeper if the demand for money curve is steep, or if it is flat?

Explain your answer analytically, carefully indicating how the slope of the demand for money curve affects the slope of the LM curve.

5. Suppose an initial situation of equilibrium of full employment with no inflation, and that then the Federal Reserve causes the money supply to increase.

How will that increase in the money supply initially affect prices and output. What will be the long run affect on prices and output? What happens to cause an adjustment between the immediate short run and the ultimate long run? Explain your answers, illustrating with one or more graphs.

The median on this exam was 65. The high was 83.

**Econ 301 Exam #3 Fall, 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) Purchasing power parity

b) Monetary base

c) Ricardian equivalence

d) Pipeline function of inventories

e) Reaction function

2. Will an increase in the government’s deficit inevitably lead to an increase in the country’s foreign trade deficit?

Explain your answer, being careful in outlining your logic. Graph(s) are optional.

3. Suppose that the next head of the Federal Reserve is a strong believer in policy rules. Two options are being considered, targeting income, or targeting interest rates. In which of these two cases will discretionary fiscal policy potentially have a greater impact? Explain your answer with one or two graphs.

Suppose the cash/deposit ratio is 0.25, and the required reserve ratio is 0.05 . If the Fed engages in an open market purchase of ten billion dollars, by how much will the money supply change, and in which direction?

4i. Economists distinguish between the volatility of investment in housing, and the volatility of investment in manufacturing industry. The key to understanding investment behavior is the accelerator model.

- What is the basic formula for the accelerator model?

- Would the coefficient in that formula be bigger for housing or manufacturing?

- That formula can be modified to take into account real world phenomenon such as lags. Do lags make investment more stable or more volatile? Explain

- Generally speaking, would construction lags be larger for housing or for manufacturing?

Another modification of the accelerator model would be to include depreciation. Would depreciation make investment more volatile, or less volatile? Is depreciation larger for housing or for manufacturing?

ii. Let’s do a little arithmetic. Suppose your firm is thinking of renting a computer system, which costs $200,000. The going rate of interest is 4%, the rate of depreciation is 2%, the rental company’s tax rate is 20%, and there is a 10% subsidy on technology investment. What is your after tax rental cost of this computer system?

5. Which of the following stylized facts about the US economy are consistent with forward looking theories of consumption, and which are not? Justify your answer in each case. If there are any cases where it is not, can you suggest some alternative explanations?

A. The marginal propensity to consume out of current income is less for farmers than for most other occupations.

B. The saving rate for the U.S. fell during the recession of the early 1980s.

C. Across the population as a whole, people with lower incomes have lower savings rates than people with higher incomes.

D.The amount of wealth in the economy is far greater than what current wage earners will consume in their retirement.

E. The marginal propensity to consume out of current income is less for old people than for middle-aged people.

The median on this exam was 58. The high was 82.

Econ 301 Exam #1 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) Exogenous variable

b) COLA

c) Total Factor Productivity

d) Okun=s Law

e) Balanced Growth Path

2. Consider the following equations describing an economy, where Y is real

output, C is consumption, I is investment, Yd is disposable income, G is

government spending, and T is taxes. For simplicity, let X (net exports)

be zero.

C = 100 + 0.8 Yd , I = 500, G = 600, T = 0.25 Y.

A) What is the equilibrium level of income?

B) Is the government=s budget balanced? Explain.

C) If Investment falls by 200, what is the change in equilibrium income?

Illustrate this with a graph.

3a. President Bush has just announced a new budget that will involve

significant increases in government spending. Suppose that these changes

are permanent, in the sense that the ratio G/Y increases. What would we

expect to happen to the ratio of I/Y? Explain your answer.

b. Suppose instead that US exporters were to fall behind our competitors,

so that the ratio of net exports to Y (X/Y) were to fall. How would that

affect the ratio I/Y? Explain briefly

c. Here's another question about long run trends, but focusing on the

supply and demand for money. Suppose that technological growth were to

decline, thus lowering the level of Y\* (potential income). If the Federal

Reserve wanted to maintain a constant price level, what would it have to

do to the money supply? Explain briefly.

4. Consider the flow model of the determination of unemployment, and the

natural rate of unemployment.

A) According to this model, what will happen to the natural rate if the

economy moves from its current structure to one with a much larger weight

in high tech industries for defense? Explain briefly.

B) Demographic characteristics of the population also affect the natural

rate, according to this model. Identify and explain briefly how each of

these two scenarios might affect the natural rate, giving a short

explanation. First, the population is characterized by having an

age-group that is unusually large, such as the "war-baby" generation that

was born shortly after WWII. How might the aging of this group --they are

now in their mid-fifties--affect the overall natural rate of unemployment

for the economy? The second situation is to consider a groupBlet=s call

them womenBwho are more flexible about hours and types of jobs they will

take. Suppose that over time the labor force participation of this group

grows; how would the natural rate of the economy change?

5. Let's talk some more about economic growth.

A) According to the "historical growth accounting" analysis, what have

been the three most important factors determining growth of the U.S.

economy, in the second half of the twentieth century? What would be the

relative ranking of these three, in terms of their contribution to our

growth?

B) Which of those three factors is usually blamed for the "Productivity

slowdown" of the 1990s?

C) In terms of our growth accounting formula, with a weight for labor of

0.6 and for capital of 0.4. What happens to the economy's overall

growth rate if the rate of growth of population falls from two percent to

one percent? If technological change occurs at 0.75% per year, the target

rate of growth of real GDP is 3 percent, and the population is growing at

2 percent, what must be the growth of the capital stock?

D) Explain real simply what is meant by Aendogenous growth theory,

perhaps illustrating your answer by comparing it to Solow's neo-classical

growth theory.

The median on this exam was 61, the high was 92.

Econ 301 Exam #2 Winter, 2003 Professor Twomey

Please PRINT your name on the BACK of the last sheet. You will lose credit

if your name appears anywhere else. 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) Pipeline function of inventories

b) Accomodative policy

c) Natural Rate Property

d) Real Balance Effect

e) Liquidity constrained consumer

2. Suppose the desired capital stock is given by the expression K\* =

vY/RK, where the capital output ratio "v" is constant, and RK is the

rental cost of capital. Assuming that output in the economy is fixed at

Y\*, will a permanent increase in the interest rate have a permanent or a

temporary effect on the level of investment? -- Is your answer consistent

with the investment function incorporated in the IS curve? Explain.

B) Let's turn to the issue of government policy. Suppose that there is a

price shock, such as would be caused by an increase in the price of

petroleum. i) According to the standard model in our textbook, what would

be the initial impact of the price shock on the overall level of output,

employment, and prices?

ii) The government could either do nothing, or engage in some

countercyclical policy. Choose one of these policies, and discuss briefly

the positive and negative aspects of it.

3. This question relates to the textbook version of the macroeconomy, combining

IS-LM into the AD curve, and using the textbook's standard price adjustment

equation, where price expectations are backward looking.

Suppose the quantity of money is decreased, and that people had not

expected this decline. How will this affect the following variables

(Increase, decrease, no change), in three time frames; initial impact, in

the subsequent short run (say, two periods later) and in the long run?.

Explanations and/or graphs are not necessary, but may be helpful.

,Interest Rates, Prices,Tax Revenue,Investment,Consumption,Real GDP

Impact,,,,,,

Two Periods,,,,,,

Long Run,,,,,,

4a. Define briefly the IS curve.

B. Explain briefly, (no graph necessary) why the IS curve is downward sloping.

C. In macroeconomics, there is a debate about whether or not the level of

consumption is affected by the rate of interest. In which situation will

the IS curve have a steeper slope, where consumption is not affected by

interest rates, or where consumption is negatively affected by an increase

in interest rates. Explain briefly (graph optional).

D. Explain briefly (no graph necessary) what will happen to the IS curve

if consumers feel wealthier due to an increase in wealth, caused for

example by an increase in the stock market.

5A. Are the following facts consistent with forward looking theories of consumption?

Explain each answer briefly.

i. Most European countries have both more extensive social welfare systems for older

people and higher saving rates than the United States.

ii. The savings rate for the United States fell during the period of recession in the

early 1980s

iii. Across the population as a whole, people with lower incomes have lower average

savings rates than people with higher incomes.

B. Demographers predict that the fraction of the population that is elderly will

increase over the next 20 years. What does the life-cycle model predict will happen to

the national saving rate?

C. We had discussed in class that studies show that elderly people do not consume as

much as the life cycle model predicts. One study found that the elderly who do not

have children consume (dis-save) at about the same rate as the elderly who do have

children. What might this finding imply about the reason why the elderly do not

dis-save as much as the life-cycle model predicts?

The median on this exam was 71; the high was 90

Econ 301 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 each of 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) Automatic stabilizer

b) Monetize government debt

c) Transactions motive

d) Menu costs

e) Purchasing power parity

2a. Suppose the reserve ratio is equal to 0.05, and the currency ratio c is equal to

0.20. If the Fed engages in an open market purchase of $80 billion, by how much do

the monetary base, the money supply, and demand deposits change?

b. "If expectations are rational, monetary policy has no effect on output." What is

meant by the term rational expectations? Is the statement in quotation marks true or

false? Explain your answer.

3. President Bush is currently proposing a tax cut. What effect would this have on

real income, interest rates, and the government deficit, according to each of following

three theoretical approaches. Explain, (graph optional) and indicate why your answers

differ:

a) a standard Keynesian consumption function

b) People try to smooth their consumption

c) The Ricardo-Barro equivalency is valid.

4a. Suppose that the economy is at potential level of output, but that the

government's budgetary deficit is thought to be too large, and the country's trade

deficit is too large. Describe (and illustrate with a graph) a change in monetary and

fiscal policy that keeps the economy at full employment, but lowers both deficits.

b. In macroeconomic models with foreign trade and floating exchange rates, why is

the effect of monetary policy on net exports ambiguous [meaning could increase or

could decrease], while that of fiscal policy is not?

5a. Let us analyze what response the Fed would have, using the following different

policy rules, to a situation where we suppose that, due to the increased use of credit

cards, and because of financial deregulation of different kinds, that the demand for

money falls. Identify and explain briefly what would be the response to this change (if

any) when the Fed is following:

i) Friedman's constant growth rate rule

ii) a simple zero inflation rule

iii) Taylor's monetary policy rule.

b. In discussing the Federal Reserve's policy decisions, the textbooks states: "The

choice between interest rate setting and money supply setting usually boils down to

practical questions about which variable is easier to measure and interpret." Leaving

aside the question of interpretation, explain briefly why there might be problems of

measurement of the interest rate and the money supply.

The median on this exam was 51; The high was 90.

Econ 301 Exam #1 Winter, 2001 Professor Twomey

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

sheets, using the backs if necessary. Questions are equally weighted.

Please ask for clarification of any unclear question. Good luck.

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

a) Classical dichotomy

b) Balanced growth path

c) Crowding out

d) Endogenous growth theory

e) Labor force participation rate

2a. It is clear that when economists speak of full employment, not

everybody is working. But at full employment, are all the available jobs

taken? Explain.

b. How should the following affect the natural rate (the full employment rate)

of unemployment? Explain each answer briefly:

- Elimination of the minimum wage law

- The economy shifts from reliance on production of capital goods,

which have unstable demand, to the production of services, whose demand

grows parallel with income

- There is a marked improvement in the effectiveness of retraining

programs for dismissed workers.

3. Recalling that the formula for equilibrium income in the Keynesian

model is Y = (a + I + G + g)/(1-b(1-t)+m), with a consumption function C =

2000 + 0.75Yd, a level of Investment of 3500, G = 2500, a tax rate of 0.1,

and an import function X = 1000 - 0.1Y.

a) what is the equilibrium level of income?

b) what is the equilibrium level of savings?

c) is the budget balanced?

d) if investment rises by 500, by how much does income rise?

e) if investment rises by 500, what happens to net exports?

4a. With a given (constant) money supply, how would a rise in potential

GDP be expected to affect the price level in the full employment model?

Explain briefly.

b. According to our textbook, how will a reduction in income taxes

affect the labor market and therefore aggregate supply? Explain and

illustrate with a graph.

c. What is meant by the efficiency wage model? In terms of policy, how

does it differ from the standard (classical) wage model?

5a. Our textbook provides a model for analyzing the long run shifts of the

shares of GDP. Use it to answer the following, explaining and illustrating

each answer with a graph.

How would an increase in government expenditures, due to a renewal of

the arms race, affect the share of net exports in GDP?

One issue that may be of importance is the decline of US production of

petroleum, and the corresponding rise of imports of petroleum, even

relative to GDP. How would this decline in net exports be expected to

affect the ratio of investments to GDP?

b. The Solow model leads to an "accounting formula" for analyzing the

long run contributions to economic growth: Y/Y = A/A + 0.7 N/N + 0.3 K/K,

where A is technology, N is the labor force, and K is the capital stock.

- According to researchers using this formula, what was the major

factor contributing to the decline in US economic growth during the 1970s

and 1980s?

-If the long run growth of income has been 4%/yr, while that of

labor has been 3% and that of capital has been 5%, what has been the

annual growth rate of technology?

The medan on this exam was 62; the high was 78

Econ 301 Exam #2 Winter, 2001 Professor Twomey

Please PRINT your name onthe BACK of the last sheet. Answer on these sheets, using the backsides if

necessary. Extra sheets are available from the professor. Questions are

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

clarification. Please turn in your take home question at the end of class.

Time: the entire hour.

1. Identify the following with a sentence or at

most two: a) Panel data tests b) Net export function c) Rate of Time

Preference d) Automatic Stabilizers e) Natural Rate Property

2. The Federal Reserve recently announced a policy to increase the money

supply. Using the IS/LM and AD/PA models, state and explain briefly how that new

policy should be expected to affect each of the following variables. a)

Prices b) Output c) The interest rate d) Unemployment e) Consumption f)

Investment g) Tax revenue h) Imports

3. In the United States during the

early 1980s, there was a marked decrease in savings (compared to income).

The forward looking consumption model is supposed to be able to interpret

phenomena such as this. We do know that newly elected President Reagan

implemented several new policies, which potentially could explain the

decline in savings.

a) Identify and explain briefly three factors which

could have caused this decline in savings. (These factors may or may not

be historically accurate. Also, for the purpose of this discussion, you

may choose to consider the change in savings to have been either permanent

or temporary).

b) The forward looking model of consumption is inherently a

theoretical construct. Identify and explain briefly two real world

phenomena that might impede it from functioning according to theory.

4. Give a brief definition of the IS and the LM curves.

How will each of the following affect the IS or the LM curves? Explain

briefly: a graph is optional, but recommended. a) An increase in taxes b)

An increase in the demand for money c) An increase in tariffs affecting

imports d) An increase in prices e) Technological change leads to an

increase in investment demand.

5a. Suppose the Fed used monetary policy to

keep the interest rate at 7 percent, no matter what else happened in the

economy. Although 7 percent may seem like a high rate, it is possible that

such a policy could in fact be inflationary. Explain what could happen in

the economy that would lead to this policy being inflationary. How would

the nominal money stock and output behave in this situation?

b. "Stagflation" is a term coined in the 1970s to describe a sustained

period of both high inflation and unemployment. We now interpret this as

resulting from price shocks, which affect aggregate supply. The textbook

discusses two different policies the monetary (or fiscal) authorities can

choose take in such a situation. What are they, how do they affect the

macro-economy, and what are the benefits or costs of each one?

The median on this exam was 78; the high was 105, and max was 120.

Econ 301Intermediate Macroeconomics Exam # 3 Winter, 2001 Professor Twomey

Please

PRINT your name on the BACK of the LAST SHEET. Answer on these sheets,

using the backs if necessary. Questions are equally weighted. Please ask

for clarification if you do not understand the question. Time: unlimited,

which means until about 11:00. Good luck!

1. Identify the following with

a sentence or at most two: a) Monetary base b) Bretton Woods system c)

Ricardian Equivalence d) Real exchange rate e) Staggered contracts

2a.Suppose that, for some international political reason, the European Union

put a ten percent tariff on US exports. [Using the IS-LM model, show how

that] would affect our prices, output, interest rates, and the nominal

exchange rate (Euro/$)? Illustrate your answer with a graph. b. Suppose

the Federal Reserve wished to neutralize the change of our interest rates

that you described above. Would the Fed engage in open market purchases or

open market sales? Explain briefly.

3a. What is the basic formula for the

investment accelerator, defining each of the variables. Show briefly the

derivation of that formula. b. Without further derivations, how do the

following considerations affect the accelerator?

i) depreciation

ii) lags in the investment process

4a. What is meant by the theory of purchasing power parity? b. Suppose

inflation in the US is 4 percent while that of Europe is 7%. Under PPP,

how does E (the average exchange rate Euro/$) change? Is this an

appreciation of the dollar or a depreciation? c. Why might a depreciation

of a country's currency cause inflation? What is the textbook's argument

for why this has not happened in the US?

5. It can be argued that the introduction of new payment mechanisms

(credit cards, ITM machines, web based payment systems) will change the

demand for money, as these substitute for currency. a) Will this lead to

an increase or a decrease in the demand for money? In the short run, how

would this change an assumed initial IS-LM equilibrium? (Illustrate on a

graph) b) Suppose the monetary authorities had been following Friedman's

constant growth rate rule. Would the change in equilibrium from part (a)

lead them to change the money supply? If so, in what way? If not, why not?

c) Suppose now that the monetary authorities had been following the Taylor

rule: R = ã + (Y-Y\*) + ë(ã - ã\*) + Rf; where R is the nominal short term

rate, Rf is real interest rate target, ã is actual inflation, ã\* is the

target inflation rate, and (Y-Y\*) is the GDP gap. Going back to your

answer in part (a), what would the Fed do to interest rates, and how would

they change the money supply to cause that change in interest rates?

The median on this exam was 56; the high was 85

Econ 301 Exam #1 Fall, 2000 Professor Twomey

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

sheets, using the backsides if necessary. Extra sheets are available from

the professor. Questions are equally weighted. If any question is unclear,

please ask for clarification. Time: the entire class.

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

a)Slowdown in productivity growth

b) Endogenous growth theory

c) Value added

d) Okun's law

e) Crowding Out

2a. Using the long run growth model of chapter 3, suppose that the

incentive to invest falls, and explain and illustrate with a graph what

would happen to the share of total GDP of consumption and net exports.

b. Suppose that, as a result of the ending of the Cold War, the U.S.

government reduces its expenditures on defense by the equivalent of 2% of

GDP. Explain and illustrate with graphs what would happen to the (real)

interest rate, consumption, and investment if:

i) the full amount of the defense cut is applied to a tax cut for households

ii) the government makes no adjustment is its other programs.

3a. Consider our textbook's standard growth accounting framework, where

the share of capital is 30%, and that of labor is 70%. Assume that over a

generation, the annual growth rate of the capital stock has been 3.5% and

that of labor has been 2.5%, and that the overall growth rate of the

economy has been 4%/year.

i) what has been the rate of technological change?

ii) If a successful government policy raises the rate of growth of the

capital stock by a further one percent per year, by how much should we

expect the rate of growth of output to rise?

b) In last week's presidential debate, there seemed to be widespread

agreement on the advisability of increased expenditures on education to

increase income. However, in class it was noted that such a position can

be rationalized either by supply side approach, or the Keynesian demand

side approach. Explain each position, illustrating each with a key graph.

4a. Draw a graph of equilibrium in the labor market, making sure to label

the axes. For each curve, identify two variables that can affect that

curve, explaining very briefly the economic logic.

b. What is meant by the "job-losing rate"? What are its three components?

c. The "efficiency wage model" differs from the standard equilibrium model

of the labor market in part "a" above in several ways. Identify one that

relates to its theoretical structure, and one that relates to implications

about its effects.

5. Recall the following formula for equilibrium income:

Y = (a + I + G + g)/(1 - b (1-t) + m) where

C = a + b Yd , X = g - m Y, Yd = Y (1 - t) and G = 900, I = 1000,

a = 400, g = 200, b = 0.75, m = 0.1, t = 0.2

5a. What is the equilibrium level of income?

b. With this value of income, what is the level of the government budget

balanced, surplus or deficit? (and by how much)

c. What is the value of the multiplier?

d. If investment rises to 1100, by how much does equilibrium income rise?

e. Illustrate the situation in the above question (5d) with a graph.

The median on this exam was 62; the high was 96.

Econ 301 Exam #2 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) Wealth effect on consumption

b) LM curve

c) real business cycle model

d) Longitudinal surveys

e) Natural rate property

2a. What is meant by countercyclical stabilization policy?

b. If one were to accept the argument associated with Friedman's permanent

income hypothesis, would countercyclical stabilization policy look more

attractive, or less? Explain.

c. Identify and explain real briefly two defects of the forward looking

model of consumption.

3a. Are the following facts consistent with the forward-looking theories

of consumption? Explain your answer briefly.

i The marginal propensity to consume out of current income is less for

old people than for middle aged people.

ii The savings rate for the United States fell in the early 1980s

iii The amount of wealth in the U.S. is far greater than what current

wage earners will consume in their retirement.

b. If someone believes that the current expansion in the U.S. economy is a

temporary result of exaggerated stock market prices and a short term

technological advantage of the U.S. over its trading partners, would that

person predict that savings rates should be higher or lower than normal?

Explain.

c. In view of Okun's law, is it possible for both output and the

unemployment rate to increase from one year to the next? Explain.

4a.What is the difference between accommodative and non-accommodative

monetary policy? b. Assume that the economy experiences a price shock,

due to an increase in the price of imported petroleum. What would be the

advantages and/or disadvantages of each of the two policies mentioned

above in (4a)?

c. If money demand falls, what would be the impact on either/both the IS

and the LM curves? No explanation needed.

5. Does fiscal policy have a bigger short term impact on aggregate demand

if the LM curve is steep or flat? Explain, illustrating your answer with

one or two graphs.

b. If the government raises the tax rate, what will be the impact effect on: (explanations and graphs are optional)

-- real output -- the interest rate --investment

--consumption --net exports-- the real money supply

c. In addition to fiscal policy, what would be two other factors that

would cause the IS curve to move?

The median on this exam was 67, the high was 92.

Econ 301 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.

The weighting of the questions varies slightly. 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 (20 points):

a) Purchasing power parity

b) Depreciation deduction

c) Ricardian equivalence

d) Exchange rate stabilization

e) Monetary base.

2 (15 points) a. What would happen to the interest rate, real GDP, the

exchange rate, and the trade deficit if a uniform 10 percent tariff were

placed on all imports? Explain your answer briefly graph optional.

b. Suppose that competition in the credit card industry drives down the

cost charged for using credit cards. How is this likely to affect money

demand? With this change in the demand for money, how will it affect

interest rates and output in the IS-LM graph? Explain and illustrate with

a graph.

3. (15 points) a. Compared to business investments, should we expect

investments represented by consumer demand for automobiles to be more or

less sensitive to interest rates? Explain briefly.

b. What theory of inventory investment predicts that inventory investment

is negative when GDP suddenly rises? What theory of inventory investment

predicts the opposite?

4. (15 points) a. What is the argument given by our textbook authors as to

why exchange rate changes would not cause price shocks in the U.S., while

they would in a small open economy such as Denmark or Holland?

b. Consider the issue of whether or not government deficits cause interest

rates to rise. What would be one situation where these both rise together?

What would be one situation where deficits and interest rates move in

opposite directions. According to our textbook, in the last few decades,

have movements in government deficits in the U.S. been associated with

similar movements (that is, of the same sign) in interest rates?

5. (15 points) Consider our textbook authors' preferred monetary rule: R

= ã + 0.5(Y-Y\*) + 0.5(ã - ã\*) + Rf , where R is the nominal interest rate,

Y is actual output, Y\* is full employment output [so that (Y-Y\*) is the

output gap], ã is the rate of inflation, ã\* is the target rate of

inflation, and Rf is the target real rate of interest. Assume Rf is 3%, ã\*

is 2%, and that the economy is initially in equilibrium at full employment

with R = 5%.

A) Suppose now that there is an aggregate demand shock due to increased

investment demand, and that ã goes up to 4% and Y rises by 2 %. If the

central bank were following the authors' monetary policy rule, what would be

the new rate of interest?

B) Suppose now that the central bank followed a policy rule of keeping the

interest rate constant. In the face of an aggregate demand shock, would

output rise by more or less than if it would if the central bank followed

a monetary rule such as in the above scenario (5A)? Explain.

6. (10 points) a. Suppose a newly elected president promised not to raise

taxes and not to tamper with social security and other transfer programs,

and that the economy is at full employment. However, suppose the president

still was facing a large budget deficit, and had also promised to

eliminate the deficit. Can the deficit be eliminated without breaking any

of these promises? Explain your answer. If the president also could

influence monetary policy, could the deficit be eliminated without

breaking any promises and maintaining full employment? Explain.

7a (10 points). Suppose the desired capital stock (K\*) is given by the

expression K\* = vY/RK, where v is a constant and RK is the rental cost of

capital. If the output in the economy is fixed at Y\*, will a permanent

increase in the interest rate have a permanent or a temporary effect on

the level of investment? Explain.

The median on this exam was 69; the high was 90

Econ 301 Exam #1 Winter, 2000 Professor Twomey

Please PRINT your name on the BACK of the LAST sheet. Answer on these

sheets, using the flip sides if you need space. Questions are equally

weighted. Please ask for clarification if the question is unclear. Time:

up to 90 minutes. Good luck!

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

a) Official settlements balance

b) New growth theory

c) Real GDP

d) Intergenerational externalities

e) Structural unemployment

2. Consider a situation such as that of the U.S. economy recently, where

in the first period, the country has a high fiscal deficit financed by

bond sales, but then later it reduces the deficit. According to the

classical loanable funds model, how will this affect each of: prices,

output, the money supply interest rates, inflation, employment, savings,

and investment. Explain your answer, illustrating with one or more graphs.

3. How might the following affect labor supply and demand, the equilibrium

real wage, and the aggregate supply curve? Explain each answer,

illustrating each with a graph.

a) An increase in labor force participation by young people uninterested

in college b) An increase in social security taxes to strengthen the

nation's retirement system c) The country's technology improves,

increasing worker productivity. d) There is an increase in immigration.

4. Using the classical model, explain and show on the aggregate

supply--aggregate demand graph what happens to prices and output if the

quantity of money declines. Now, using the same classical analysis,

explain and illustrate with a graph what happens in the labor market to

employment and nominal wages when the quantity of money declines. Finally,

in the Keynesian model, what happens to output and employment if the

amount of investment falls?

5a. Suppose that the increasing use of the Internet to make transactions

without reliance on money causes the income velocity of money to decline

substantially. Use the classical model to predict what effects, if any,

this would have on the price level, real GDP, the real interest rate, and

the nominal interest rate.

b. Suppose that the central bank of a small European nation keeps the

quantity of money in circulation stable. Its government's budget is

balanced. In addition, its income velocity of money is stable, as are

conditions in its labor market. Technology does not change. Nevertheless,

the value of the nation's currency is persistently depreciating relative

to that of its major trading partner. Given the conditions the small

country faces, what single factor wold the classical model indicate must

account for the steady depreciation of its currency? Explain briefly.

The median on this exam was 57: the high was 73.

Econ 301 Exam #2 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. Please ask for clarification

of any unclear question. Time: 90 minutes. Good luck!

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

a) IS curve

b) real balance effect

c) automatic fiscal stabilizer

d) Traditional Keynesian transition mechanism for monetary policy

e) regressive tax

2. Consider an IS-LM-BP/aggregate supply and demand analysis with fixed

exchange rates, in which the economy is initially at equilibrium. Now,

suppose the monetary authority increases the money supply. Identify and

explain briefly how will that effect: real income consumption the price

level interest rates the trade balance the balance of payments investment

taxes the government's deficit

3. Consider a standard Keynesian IS-LM/Aggregate supply and demand

analysis, with an upward sloping (but not vertical) aggregate supply

curve. Suppose the government increases government expenditures, financing

this with the sale of bonds. There are, in this case, at least two

separate causes (or types or channels) of crowding out.

a) Define crowding out

b) Explain each of these types of crowding out,

illustrating each with a separate graph.

c) One of those types depends on the LM curve. Will that crowding out be

larger if the LM curve is steep or flat? Explain with a sentence or two,

illustrating your answer with another graph.

4. In the IS-LM-BP analysis with a relatively flat BP curve, consider a

country which has a balance of payments deficit (in a fixed exchange

regime) and a government deficit. What policies can it pursue to eliminate

both deficits? Explain your answer, illustrating it with a graph. (There

is more than one correct answer to this question)

5a. What is meant by Ricardian equivalence? What important implication

does Ricardian equivalence have for government policy? The textbook

discusses several reasons why Ricardian equivalence might not hold.

Identify and discuss two.

b. What is meant by the Laffer curve? Draw a graph of that curve, being

sure to label the axes. What important implication does the Laffer curve

have for government policy?

The median on this exam was 72; the high was 91

Econ 301 Exam #3 Winter, 2000 Professor Twomey Please PRINT your name on

the back of the last sheet. You will lose credit if it appears anywhere

else. Answer on these sheets, using the backs if you need more space.

Questions are equally weighted. If any question is unclear, ask for

clarification. Time: 90 minutes.

1. Identify the following with a sentence

or at most two: a) Inside money b) Covered interest parity condition c)

Administered pricing hypothesis d) Observational equivalence e) Efficient

markets

2a.) If real GDP variability and employment volatility over business

cycles becomes significantly less pronounced, this would suggest that the

variability of aggregate demand and supply had declined. According to the

new Keynesian analysis, what would be the likely effect of this on the

average duration of wage contracts? Explain. b) There has been a

consistent decline in the fraction of the workers in the private sector of

the U.S. economy who are unionized. Identify and explain briefly two

micro-based explanations for that trend.

3A) Suppose the labor force participation rates of teenage workers

suddenly increases during a period in which wage contracts are in force

for all firms and workers in an economy. According to the modern Keynesian

model, what would be the effects, if any, on employment, unemployment, and

real output? Explain your answers briefly.

B) Government regulation of labor-market functions is more prevalent in a

number of European nations than in the U.S. It is also the case that

unemployment levels are higher in Europe than in the U.S. According to

the insider-outsider model, are these two facts consistent or not? Explain

briefly.

4a. Identify and explain briefly two factors that the real business cycle

uses to explain short term fluctuations in real output. b. Real business

cycle theorists typically come from a political position that is opposed

to Keynesian type governmental intervention for the purpose of evening out

business cycles. For each of the factors you identified in part (a) above,

is or can there be a role for the government in minimizing business

fluctuations? Explain your answer briefly.

5a. The rational expectations school emphasizes the difference between anticipated and

unanticipated government policies. According to this school, how would an increase in the

money supply affect the following variables, in a situation where that increase was

anticipated, and in one where it was not anticipated? Explanations are not necessary.

Effect of money on: Anticipated Unanticipated

Price level Real GDP Nominal wages Real wages Employment

b). First of all, identify the following as changes aggregate demand or

aggregate supply. Now, follow that through to its effect on the Phillips

curve. Specifically, should each change lead to a movement along the

Phillips curve, or a shift of the entire Phillips curve? Illustrate each

answer with a graph.

i) Computer advances make the entire economy more productive

ii) The newly elected president decides to spend more on defense.

iii) Financial crisis in Asia lowers our exports to those countries.

iv) Oil exporting countries act together to raise the price of oil.

The median on this exam was 63: the high was 87.

Econ 301 Intermediate Macroeconomics Exam # 4 Winter, 2000 Professor

Twomey Please PRINT your name on the BACK of the LAST SHEET. Answer on

these sheets, using the backs if necessary. Questions are equally

weighted. Be sure to label the axes on your graphs. Please ask for

clarification if you do not understand the question. Time: about an hour

and a half. Good luck!

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

a) Churning

b) Hedge

c) Off-budget item

d) Purchasing power parity

e) Assignment problem

2. Why can the time inconsistency problem lead to an inflation bias in

macroeconomic policymaking when workers and firms contract wages? Explain

your answer a graph may be helpful, but is not necessary.

3a. Consider first the case of a country with high capital mobility in a

situation of floating exchange rates. How will an increase in the money

supply affect the equilibrium of the economy? Explain and illustrate with

a graph.

b. Now consider the case of a fixed exchange rate system, with a very

inelastic BP curve. What happens to the economic equilibrium if the

government increases expenditures?

4. One example of a "rule" that the textbook discusses is fixed exchange

rates. An important example is the European Union's (nearly unanimous)

adoption of the euro. What is the euro? Discuss one advantage, and one

disadvantage, of this scheme.

A different proposal is a currency board. What is this?

Discuss one advantage, and one disadvantage, of the currency board scheme.

5a. Our textbook has a lengthy discussion of (intermediate) economic

policy targets. Choose three examples of potential targets, and discuss in

which macroeconomic contexts these are advantageous, and in which contexts

they make instability worse. It is probably best to illustrate each one

with a graph. B. What is Alan Greenspan doing, followin a target or rule?

What grade do you give him?

The median on this exam was 71; the high was 94.

Econ 301 Exam #1 Fall, 1999 Professor Twomey Please answer on these

sheets, using the backsides if necessary. Ask for clarification if the

question is unclear. Questions are equally weighted. Good luck.

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

a) Cambridge equation

b) Money illusion

c) Base year

d) Capital Account

e) Countercyclical fiscal policy

2. The purchasing power parity theory is a basic component of the

macroeconomics of exchange rates.

a) This theory is characterized by a formula; state that formula,

explaining what is meant by each of its component terms.

b) State briefly in words no formulas nor graphs an

explanation of why one might believe this formula to be accurate.

c) According to this theory, what happens to a country's exchange rate if

that country's money supply increases? Explain briefly.

d) According to this theory, what happens to a country's exchange rate if

other countries have high inflation, but the home country does not?

3a. Draw a graph of the market for loanable funds, being careful to

identify the variables determining the curves, and to label the axes.

b. Suppose that there is a change in tax laws, making it more attractive for

people to save. Ignore the effect on the deficit. Explain and illustrate

on another graph, how the increased desire to save will affect the

equilibrium in the market for loanable funds.

c. Take a new situation; suppose that the government decreases its deficit, which it finances by

borrowing. Explain and illustrate on another graph how that will affect

equilibrium values of savings and investment, according to the loanable

funds model.

4. Consider now a simple Keynesian model.

a. Using either the 45 degree graph, or the graph of leakages and

injections:

i) explain and illustrate how an increase in exports affects output.

ii) explain and illustrate how an increase in imports caused by a change

in taste, such as a new type of lap-top computer produced overseas affects

output.

b. What is the formula for the multiplier? If the MPS is equal to 0.2, and

the MPIM is equal to 0.4, what is the effect on output of an decrease of

investment of $300 billion?

c. Take a different situation. Suppose there is an increase in

government expenditures which increases income. How will this affect the

level of national savings? How will it affect the trade balance? Explain

briefly.

5a. Consider the classical model of the labor market. Identify

two exogenous factors that determine labor supply.

b. On a graph of the labor market, with nominal wages on the vertical

axis, explain and illustrate how a change in one of the factors

(identified above) would shift the labor supply curve. Such a change in

the labor market will also affect aggregate supply. Explain and illustrate

on a separate graph the corresponding change in aggregate supply.

c. According to the classical theory, how would an increase in the supply

of money affect aggregate supply and aggregate demand? Illustrate with a

graph.

d. How does an increase in the supply of money affect the labor market,

(with nominal wages on the vertical axis). Explain and illustrate with a

graph.

The median on this exam was 71. The high was 96

Econ 301 Exam #2 Fall, 1999 Professsor Twomey

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

sheets, using the flip sides if you need space. Questions are equally

weighted. If you are unsure of what is being asked in any question,

please request clarification. Be sure to label all the axes on the graphs.

Good luck!

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

a) Automatic (fiscal) stabilizer

b) Real balance effect

c) Cambridge equation

d) Political business cycle

e) Regressive tax system

2. What is meant by Ricardian Equivalence?

The textbook argues that the data is not consistent with Ricardian

equivalence. What are two reasons that are proposed to explain that

inconsistency?

Define the BP curve. How does the BP curve move if the exchange rate

depreciates? Illustrate on a graph and explain very briefly.

3a. Explain rigorously, and illustrate on a graph what happens to the IS

curve if government expenditures decline.

b. Explain briefly, and illustrate on separate graphs, how the decline in

government expenditures would be depicted:

in terms of the aggregate supply and demand graph

in terms of the Phillips curve

4a. Suppose the money supply increases. (Graph and/or short explanation

are optional, but recommended) According to the IS-LM/Keynesian model,

how will that affect:

Nominal interest rates

Real income

Investment

Consumption

The price level

b. The textbook rovided two related, but distinct rationales for why the

short run aggregate supply curve might be upward sloping. Explain each one

of them, briefly. No graph necessary

5a.In class it was argued that the IS-LM/aggregate supply/aggregate demand

model includes two different types or reasons for crowding out. Explain

each one, illustrating each with a graph.

b. What is meant by the Laffer curve? Illustrate it with a graph.

Explain very briefly the proposed rationale for this curve.

What important policy prescription is derived from the Laffer curve?

The median on this exam was 77. The high was 100.

Econ 301 Exam #3 Fall, 1999 Professor Twomey

Please PRINT your name on the back of the last sheet. Use the flip sides

of these sheets if you need space. Questions are equally weighted. Be sure

to label the axes on the graphs. Please ask for clarification if the

question is not clear. Good luck!

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

a) Forward exchange rate

b) Overlapping wage contracts

c) Co-ordination failures

d) Administered pricing hypothesis

e) Policy ineffectiveness proposition

2. If aggregate supply falls due to bad weather, how will that affect

output, employment, and real wages, in a modern Keynesian model in each of

two situations-- with, and without, a full COLA. Explain your answer,

illustrating it with a pair of graphs (for real output, and for the labor

market)

3a. The textbook refers to the observational equivalence of the basic new

classical model, and the modern Keynesian model.

- What is meant by observational equivalence?

- What is the reason for stating that these two

models are observationally equivalent? Explain your answer; use of a

graph is optional.

b. The textbook mentions three reasons mentioned by Keynesian economists

to explain the existence of labor contracting. Mention two of them,

explaining each real briefly. - For one of those reasons, explain how

changes in that variable (in its intensity, frequency, incidence, or

whatever) will change, according to the theory, the (optimal) length of a

contract.

4a. In the Keynesian model, are real wages pro-cyclical or

countercyclical? Why? (Graph optional)

b) What is more general, rational expectations or efficient market theory?

Explain briefly.

c) State and explain briefly two reasons why unionization in the private

sector of the economy has declined.

5a. What is meant by Real Business Cycle Theory? What is it supposed to

explain, and how does it differ from other models? What are the two key

factors that cause changes, according to the Real Business Cycle Theory?

b. The insider-outsider model attempts to explain involuntary

unemployment. What is the basic idea of this model?

According to the insider-outsider model, how would an increase in aggregate

demand affect prices and output, real wages and employment? Explain your answer,

hopefully without graphs.

The median on this exam was 76. The high was 100.

Econ 301 Intermediate Macroeconomics Exam #4 Fall, 1999 Professor Twomey

Please PRINT your name on the BACK of the LAST SHEET. Answer on these

sheets, using the backs if necessary. Questions are equally weighted.

Please ask for clarification if you do not understand the question. Time:

the entire class period. Good luck!

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

a) Time inconsistency problem

b) Optimal currency area

c) Transmission lag

d) Nominal GDP targeting

e) FOMC

2. What is Friedman's monetary growth rule? What are its supposed

advantages? Would this work better if the monetary authorities were

altruistic, or if they were self-serving? Explain

3a. Consider an economy has high capital mobility, and maintains a fixed

exchange rate. Suppose this economy finds itself in a circumstance of

high unemployment and a balance of payments surplus. What sorts of

policies should it pursue to eliminate the unemployment and the balance of

payments surplus? Explain, illustrating your argument with a graph.

b. What is a Currency Board? Discuss its advantages and disadvantages.

4. Suppose a country has a floating exchange rate, with imperfect capital

mobility, and that the government lowers taxes. According to the IS-LM-BP

analysis, what will happen in the economy? Explain, illustrating your

answer with a graph.

5. Suppose the head of the Central Bank decides to target interest rates.

A) What is better (specify your criteria for the use of this term), to

target the nominal rate or the expected real rate?

Explain.

B) Is it better to target the interest rate if the source of

instability comes from aggregate demand or aggregate supply Explain

C) Is it better to target the interest rate if the source of

instability comes from the money multiplier or the IS curve?Explain.

D) How would you describe what Alan Greenspan is currently doing at the

Fed? Are his policies consistent with you have said about the sources of

instability in our economy? Explain

The high on this exam was 87; the median was 69.

Econ 301 Intermediate Macroeconomics Exam # 1 Winter, 1998 Professor Twomey

Please PRINT your name on the BACK of the LAST SHEET. Answer on

these sheets, using the backs if necessary. Questions are equally

weighted. Please ask for clarification if you do not understand

the question. Time: the entire class period. Good luck!

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

a) Mercantilism

b) Means of exchange

c) Exogenous variable

d) Lump sum tax

e) Balanced budget multiplier

2. State and explain briefly, illustrating your answer with the

appropriate graph(s), how, in the classical model, an increase

in the money supply will affect prices, output, employment, and

interest rates.

3a. Suppose the U.S. government decides to raise personal income

taxes, in order to pay for bailing out certain Asian economies.

Explain and show on the appropriate graph(s) what an advocate of

Supply Side economics would predict how that increase in taxes

would affect the economyþs prices, output, employment and

interest rates.

3b. Fill in the blanks in the Table: (Table didn't reproduce)

What is the level of inflation between periods 2 and 3?

What is the rate of growth of real GDP between periods 1 and 2?

4. Suppose that for a particular economy for some time period

with prices constant, investment was equal to 200, government

expenditure was equal to 150, net taxes were fixed at 100, and

consumption C was given by the consumption function C = 30 + 0.8

YD where YD is disposable income.

A) What is the level of equilibrium income (Y)? Illustrate this

equilibrium on a graph.

b) What is the value of the government expenditure multiplier?

C) Suppose investment declined by 50 units to a level of 150.

What will be the new level of income?

5a. State and explain real briefly (no graphs necessary) what

variables/economic factors determine each of labor demand and

labor supply, in a classical world.

5b. Consider a friendly debate between a classical economist and

a Keynesian. Explain (and illustrate with a graph) how each of

them would analyze the effect of a decrease of government

expenditures (without any change in taxes) on interest rates,

prices, output, and employment.

The median on this exam was 64; the high was 95

Econ 301 Intermediate Macroeconomics Exam # 2 Winter, 1998 Professor Twomey

Please PRINT your name on the BACK of the LAST SHEET. Answer on

these sheets, using the backs if necessary. Questions are equally

weighted. Please ask for clarification if you do not understand

the question. Time: the entire class period. Good luck!

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

a) Real stock of money

b) liquidity trap

c) Monetary-fiscal policy mix

d) Transactions demand

e) Backward looking price expectations

2. In a standard IS-LM model, with a Keynesian (positively

sloped) aggregate supply curve, explain and illustrate with some

graphs (or equations) the effect of an increase in the nominal

quantity of money on:

nominal interest rate

level of investment level of real output

level of tax revenues level of savings

price level level of consumption

3. Explain and illustrate in detail (that is, present a rigorous

derivation) of how an increase in government expenditures will

move the IS curve.

-Define "crowding out," and on that same graph, or with a new

graph, show and explain what is meant by that term.

-Why is crowding out complete with a vertical aggregate supply

curve?

4a. In the standard Keynesian variable price-variable wage model

(with expected prices constant) , what happens to prices and

output if the price of oil falls? Explain and illustrate with a

graph.

ai. In this case of a decline in the price of oil, what happens

to interest rates? Explain.

b. Consider again the standard Keynesian variable price-variable

wage model, with expected prices constant, and now take a

different situation, one where aggregate demand declines. Draw a

graph of the corresponding labor market, and illustrate and

explain how the decline in demand affects employment, nominal

wages, and real wages.

5a. Draw a graph and explain (that is, give the derivation of)

why the LM curve has an upward slope.

b. Explainþbut you do not need a graphþwhether, in the Keynesian

model, fiscal policy has a greater impact on aggregate demand

when the LM curve is steep or when it is rather flat.

c. The textbook suggests that we can consider the classical

loanable funds analysis as a case where the LM curve has an

extreme slope. Is this classical case one of a perfectly flat LM,

or a vertical LM? Explain briefly; once again, a graph is

optional.

The median on this exam was 61; high was 93

Econ 301 Exam #3 Winter, 1998 Professor Twomey

Please PRINT your name on the BACK of the LAST SHEET. Answer on

these sheets, using the backs if necessary. Questions are equally

weighted. Please ask for clarification if you do not understand

the question. Time: the entire class period. Good luck!

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

a) Costless disinflation

b) Representative agent

c) Efficiency wage

d) Policy Ineffectiveness Postulate

e) Seigniorage

2. Suppose that Bob Dole had won the last presidential election,

and that although he had campaigned on a platform of a balanced

budget, he surprised everybody by lowering taxes, but not

expenditures.

-According to a proponent of the Permanent Income Hypothesis, how

would this affect expected (permanent) income?

-In terms of your answer above, how would this affect the amount

of consumption? the APC?

-Would this create any transitory shock to income? Explain

-According to the accelerator model, how might this affect

investment? Explain briefly.

-Would any effect on investment be bigger or smaller under a

flexible accelerator assumption?

3a. Explain why monetarists believe that monetary policy affects

output and employment in the short run but not in the long run.

What is the crucial difference, for monetarists, between the

short run and the long run?

b. According to the natural rate theory, what happens to

employment and inflation if the government consciously attempts

to peg unemployment below the natural rate? Explain, and

illustrate your answer with a graph.

- What aspect(s) of the current economic situation in the United

States appears to contradict that theory?

4. Suppose there is an autonomous, unanticipated increase in

investment demand (another Bill Gates appears). In parallel

graphs of the output market and the labor market, show and

explain what happens to prices, output, wages and employment.

5. The textbook discusses two new directions in macroeconomics:

Real Business Cycles and new Keynesian economics.

In one or two sentences, explain the major idea associated with

each school: RBC New K

The textbook has a graph of "job leavers" and "job losers" during

the 1980s, which shows these two categories moving in opposite

directions to one another (as they must, because these are the

only two categories considered), and, more importantly, showing

that the fraction of "job leavers" falls during a recession. With

which of these two new schools is this finding consistent?

Explain.

-What would each of these schools say about the effects of

countercyclical monetary policy?

RBC

New K

The median on this exam was 73; high was 97

Econ 301 Intermediate Macroeconomics Exam # 4

Winter, 1998 Professor Twomey

Please PRINT your name on the BACK of the LAST SHEET. Answer on

these sheets, using the backs if necessary. Questions are equally

weighted. Please ask for clarification if you do not understand

the question. Time: the entire class period. Good luck!

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

a) Bracket creep

b) Endogenous growth

c) Imperfect capital mobility

d) Laffer curve

e) Capital deepening

2. The textbook has a lengthy discussion of the (intermediate

run) supply side position, and the negative effects of high taxes

on both capital accumulation and the labor market. For each of

those subjects, identify a tax with the allegedly negative

effect, and explain and show on a graph what would be the effects

of a reduction of that tax.

3. What is the BP curve? Why does it have an upward slope?

Explain and illustrate on a graph how the BP curve is presumed to

move when the exchange rate depreciates.

If a country has a fixed exchange rate, and the government lowers

its level of expenditures, according to the IS-LM-BP analysis,

what will happen to the balance of payments? Explain and

illustrate on a graph.

4. According to the standard application of the IS-LM model, is

interest rate targeting more or less desirable when the demand

for money is unstable? Explain, illustrating with a graph.

-Several commentators believe that the demand for money in the

U.S. has indeed been rather unstable during the last couple of

decades. What are some of the possible explanations for this?

5a. If a country has a floating exchange rate and the money

supply is decreased, how should that affect prices, interest

rates, and the exchange rate? Explain and illustrate with a graph

or two.

b. [No macro course is complete without the following question].

According to the scheme of Denison, what have been the major

sources of growth in the U.S. economy during the twentieth

century, and what are their relative order of importance?

-It can be argued that Denison's results go contrary to some

generally accepted wisdom about what government policy can do to

strengthen growth. Identify a policy that could be associated

with Denison's results, and explain briefly how it differs from

conventional wisdom.

The median on this exam was 68; the high was 96

Econ 301 Fall, 1996 Exam #1 Professor Twomey

Please PRINT your name on the BACK of the LAST sheet. Answer on

these sheets, using the backs if necessary. Questions are equally

weighted. Ask for clarification if the question is unclear. Good

luck.

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

a) auction market

b) depreciation

c) transactions motive

d) endogenous variable

e). Mention two limitations on the use of GDP as an indicator of

national welfare.

2. Consider the standard Keynesian model, in which prices are

assumed constant. Suppose that investment was equal to 200,

government expenditure was equal to 175, net taxes were fixed at

100, and consumption (C) was given by the consumption function C

= 50 + 0.8 YD, where YD is disposable income, and Y is GNP.

a. What is the level of equilibrium income (Y)?

b) What is the value of the government expenditure multiplier

(Y/G)?

c) Suppose that investment declined from 200 to 160. What wold be

the new level of equilibrium income?

3. Consider "the demand" side of the classical model, composed of

the loanable funds market and the equation of exchange. Let's

apply that to today's U.S. economy, where there is a high deficit

(being financed by bond sales) and we're at relatively full

employment. Suppose we elect an honest politician who fulfills

the campaign promise of reducing the deficit.

How would this affect: (explain each answer briefly with an

equation or graph)

The quantity of money

The level of prices (or the rate of inflation)

The nominal rate of interest

The level of real GDP

4. Let us turn now to the classical analysis of aggregate supply,

and labor supply. On what economic variables does the demand for

labor depend? Select one of those variables, and illustrate with

a graph how an increase in that variable will shift the labor

demand curve.

b. Suppose the public's taste changes in such a way that leisure

comes to be more desirable relative to commodities. How would we

expect such a change to affect output, employment, and the real

wage in the classical model? Explain, illustrating your answer

with a graph.

5. Define the LM curve.

Does the LM curve slope up or down? Derive this result,

explaining your answer with a graph.

Is the LM curve steeper or flatter if the demand for money is

steep? State the answer, don't bother

with a derivation.

How does an increase in the money supply affect the LM curve?

Illustrate your answer with a graph, but, again, don't go through

the derivation.

What is meant by the liquidity trap? Illustrate the situation

with a graph. What important policy conclusion is derived when

there is a liquidity trap?

median was 44; high was 100

Econ 301 Fall, 1996 Exam #2 Professor Twomey

Please PRINT your name on the BACK of the LAST sheet. Answer on

these sheets, using the backs if necessary. Questions are equally

weighted. If a question is unclear, please ask for clarification.

Good luck!

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

a) Hysteresis

b) liquidity trap

c) Natural rate of unemployment

d) rational expectations

e) New classical policy ineffectiveness postulate

2. At several points, our textbook refers to Milton Friedman (and

monetarists more generally) to the effect that the federal

government's deficits, and fiscal policy more generally, do not

significantly affect output, prices, or employment, unless

accompanied by a change in the quantity of money. Explain this

position, illustrating your answer with a graph.

3a. In the Keynesian model, what happens to real wages in a

recession? Explain your answer, illustrating with a graph.

b. Using parallel graphs of the labor market and aggregate supply

and demand, show the effect of an increase in expected prices,

according to the standard analysis common to modern Keynesians

and monetarists.

4. At the end of the inflationary decade of the 1970s, the

Federal Reserve is widely perceived to have moved to a much more

restrictive monetary policy. Using the Phillips curve analysis,

show how a monetarist would predict how this would impact

inflation and unemployment.

How, if at all, might the analysis of this policy shift be

different for a member of the rational expectations school?

What lessons about monetary policy does the textbook draw from

the Fed's experience?

5a. Although it has been said that "A rose is a rose is a rose,"

the parallel statement has not been made about monetarism. State

and explain briefly our textbook's four characteristics

propositions of monetarism.

b. One way of illustrating at least part of the monetarist

position is a simple IS-LM analysis of the effects of an increase

in the quantity of money. Explain and show with a graph how an

increase in the money supply would affect prices, output,

interest rates in a model with expected prices temporarily

assumed fixed. Include the real balance effect.

high was 94; median was 52

Economics 301 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. Ask for clarification if you do not understand

the question. Good luck!

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

a) Efficiency wage

b) Representative Agent

c) User cost of capital

d) Monetary Base

e) Service flow from consumer durables

2a. Distinguish between job leavers and job losers, and indicate

why that difference might be important for macroeconomics.

b. What is the difference between intended and unintended

inventory accumulation, and why is it important for

macroeconomics?

c. According to the life cycle hypothesis, what happens to the

ratio of consumption to accumulated savings, during our working

lives? Explain real briefly.

3a. Consider an economy where there is no cash, the required

reserve ratio is 1/4, and the Fed engages in an open market

purchase of $50 billion. How will this affect each of the

components of the balance sheet of the banking system, and by how

much will the quantity of money change?

b. According to the life cycle/permanent income hypothesis, how

will each of the following affect consumption (or, savings).

Explain your answer real briefly.

i) Just before the election, the President (up for re-election)

declares a reduction in personal income taxes

ii) Greater stability in the financial markets increases investor

confidence, resulting in greater investment in the stock market,

and significantly higher stock prices.

iii) Social security taxes are raised to adjust for the aging of

the baby boom generation.

iv) The Fed imposes a low ceiling on interest rates for loans and

deposits in banks.

4. What our textbook might call the common ground between

monetarists and Keynesians has it that monetary and fiscal

variables interacted through some version of IS-LM to affect

aggregate demand, while aggregate supply was a function of price

expectations, and the economy tends to full employment.

How does that story get altered or revised by:

Real business cycle theory

New Keynesian analysis.

5a. The inventory theoretic view of the demand for money argues

that a small number of major economic variables affect the number

of times an individual will go to the bank to buy and sell bonds.

This approach is summarized by a graph with curves of marginal

cost and marginal revenue. What variables affect those curves of

marginal cost and marginal revenue? Indicate how increases in

those variables will move the respective curves.

b. Using Tobin's analysis of the demand for money as behavior

towards risk, show the major graph of the equilibrium

determination of the demand for money, and then show and explain

how an increase in the rate of interest will affect that

equilibrium.

The median on this exam was 63; high was 94

Econ 301 Final Exam Fall, 1996 Professor Twomey

Please PRINT your name on the BACK of the LAST SHEET. Answer on

these sheets, using the backs if necessary. 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) Target zone proposal

b) collective rationality

c) Ricardian equivalence

d) Endogenous technological change

e) Reduction in U.S. official reserve assets

2. The textbook refers to the insulating properties of flexible

exchange rates. What is being insulated from what? How does this

work? You may optionally illustrate your answer with a graph.

Is this insulation good or bad? Explain.

3. Define the BP curve, and explain why it has the slope usually

attributed to it.

In a fixed exchange rate world, in which prices are constant so

that we can follow the textbook and only consider demand effects,

what are the impacts of an increase in government expenditures on

interest rates, output, the current account, the capital account,

and the balance of payments? Explain, illustrating your answer

with a graph.

4. Consider now a world of floating exchange rates and imperfect

capital mobility, and analyze, verbally and with a graph, the

impact of an increase in the money supply on interest rates, real

output, the current account and the capital account.

What happened to the average exchange rate of the U.S. dollar

during the early 1980's? Is this consistent with the analysis in

the first part of this question? Explain.

5. Consider an economy in a long run equilibrium growth path.

What happens to that growth rate, and per capita income levels,

when savings rates fall? Explain, illustrating with a graph.

b. What is Dennison's analysis of the sources of growth in the

U.S. economy during the period 1929-1980?

Is this analysis consistent with:

i) The traditional Keynesian/classical emphasis on investment

ii) The supply side vision of the importance of taxes and

government regulation

median on this exam was 62; high was 78

Econ 301 Exam #1 Fall, 1993 Professor Twomey

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

Questions are equally weighted. Use the backs of the sheets if

necessary. If a question is unclear, please ask for an

explanation.

Be sure and label the axes of your graphs.

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

a) rate of return line

b) unplanned investment

c) natural employment deficit

d) fiscal policy

e) real money balances

2. Derive (explain rigorously and illustrate with a graph) how

and

why a decrease in government expenditures moves the IS curve.

3. If the supply of money increases, what happens to interest

rates, investment, and the level of real income? What happens to

the level of Savings, and the level of net exports? Explain your

answer, illustrating it with (at least) an IS-LM graph.

4. Suppose some international political development leads to an

improvement in business outlook and confidence of entrepreneurs

in

the US, making them want to invest more. Will this have a

greater

effect on our national output if the LM curve is steep, or if it

is

flat? Explain.

What is crowding out? How can the monetary authority reduce or

eliminate it? Explain and illustrate with a graph.

5. Before 1983, the government often had a budget deficit, but

the

economy as a whole experienced a foreign trade surplus. After

1983, both the government budget and foreign trade account were

running deficits. What does this imply about the relative sizes

of private saving and private domestic investment in the periods

before and after 1983? Explain.

Conceptually, what is the difference between/among exogenous

variables, endogenous variables, and parameters?

The median on this exam was 58; the high was 91

Econ 301 Exam #2 Fall, 1993 Professor Twomey

Please PRINT your name on the BACK of the LAST sheet.

Questions are equally weighted. If any question is unclear,

please ask for clarification. Good Luck!

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

a) Large open economy

b) Natural rate hypothesis

c) Policy ineffectiveness proposition

d) LAS line

e) Real business cycle

2. Assume nominal wages are rigid, in the (original) Keynesian

model. Explain and show with parallel graphs, what happens in

the

labor market and the aggregate goods market, when aggregate

demand

falls, say because of a decline in the money supply.

3a). What is the relationship between a country's interest rate

and

its foreign exchange rate? Explain, using a graph.

3b). Explain briefly why perfect capital mobility and fixed

exchange rates combine to make monetary policy ineffective.

4a. State and explain briefly two similarities, and two

differences

between new classical models, and new Keynesian models.

According to whichever of the above named theories is

appropriate

(new Classical or new Keynesian), would the existence of each of

the following be expected to make business downswings shorter or

longer? Explain briefly.

a) Multi-year contracts (instead of single year ones)

b) Governments always discuss major policies much in advance of

implementing them

c) Absence of full COLA protection

d) A lifetime employment system, such as Japan is supposed to

have.

5. Consider an open economy with flexible exchange rates. Suppose

the money supply contracts. According to the IS-LM-BP model,

explain and show on a graph(s) how that will affect:

a) Output

b) investment

c) consumption

d) exports

e) prices

f) the exchange rate

The median on this exam was 57; the high was 94.

Econ 301 Exam #3 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. Ask for clarification if you don't understand the

question. Good luck.

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

a) Laffer curve

b) expectations augmented Phillips curve

c) seignorage

d) Okun's Law

e) Fisher effect

2a. Mention two measurement problems associated with discussions

of

the importance of the government's deficit.

b. Reagan's tax cuts were supported by supply-side arguments.

Give

two such arguments, explaining them briefly.

c. What is Barro-Ricardian equivalency theorem, and what

implication does it have on the link between deficits and saving?

3. The word structuralism arises twice in discussions of

unemployment.

a. Apparently, there has been a rise in the natural rate of

unemployment in Europe. There are two explanations for this;

structuralist and hysteresis. Explain each of them.

b. Two of the major categories of unemployment are frictional (or

turnover) and structural (or mismatch). For each of the two

types, state and explain briefly two government policies which might

reduce it.

4a. Define multifactor productivity.

b. Give three specific, different potential explanations of the

productivity slowdown, mentioning how government policy might

affect them.

5a. What are the two ways of financing a government deficit.

Under

what conditions will financing the deficit be inflationary.

b. What are the primary determinants of who wins and who loses

from

an unanticipated inflation?

c. "In the steady state, the government benefits from inflation."

Explain and comment.

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

Econ 301 Fall 1993 Exam #4 Professor Twomey

Please PRINT your name on the BACK of the last sheet. You will

lose credit if it appears anywhere else. Time - about an hour.

Questions are equally weighted; use the backs of these sheets if

necessary. Please ask for clarification of any unclear question.

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

a) Time inconsistency

b) Tobin's q

c) Regulation Q

d) cross section

e) High powered money

2. State and explain Friedman's Constant Growth Rate Rule (CGRR).

Whether or not this is a good recommendation has been subject to

much debate. How do the following affect the advisability of the

CGRR, and why?

- Unstable demand for money

- apparently random variations in the public's holdings of cash

to deposits

- financial deregulation

3. In discussing the permanent income hypothesis, the following

formula appears, where C is this year's level of consumption, Y

is this year's income, Yp-1 is last year's estimate of permanent

income, and k and j are fractions, with k being the marginal

propensity to consume: C= kYp-1 + kj(Y-Yp-1).

a) Explain, illustrating in terms of the formula, what is meant

by transitory income, and how and why its marginal propensity to

consume would be different from that of permanent income

ai) What is the explanation for the textbook saying that this

formula reflects a process of adaptive expectations?

b. One of the major implications of the Permanent Income/Life

Cycle

Hypotheses is that the private sector will be relatively stable,

not needing an activist government policy. How do the following

aspects affect that judgement, and why?

bi) The fact that we spend one third of our income on consumer

durables

bii) The common practice of bequeathing wealth to children

4a) Explain what happens when the Fed conducts an open market

purchase of $200 billion in bonds. What happens to the balance

sheets of the commercial banks? What is the ultimate effect on

the

level of high-powered money and on the money supply?

b) The book argues that financial deregulation has changed the

slope of the IS curve. As a theoretical matter, would

deregulation

make the curve steeper or flatter, and why?

5a. The basic conclusion of the accelerator model is that

investment tends to be quite unstable.

Do the following factors tend to make investment more or less

stable, and why?

a) a permanent decline in real interest rates

b) Lags in finishing an investment project

c) an increase in the capital output ratio, caused, for example,

by

technological change.

5b). In the real world, why are the levels of investment and

interest rates (real or nominal) often observed to move together,

and not in opposite directions?

The median on this exam was 63 the high was 87.

Econ 301 Exam #1 Fall, 1994 Professor Twomey

Please PRINT your name on the BACK of the LAST sheet. Questions

are equally weighted. Answer on the backs of these sheets if you

need more space. Ask for clarification if the question is

unclear. Time: 50 minutes. Good luck.

1. Identify or explain the following with a sentence or at most

two:

a) autonomous components of aggregate demand

b) Cambridge 'k'

c) names of three classical economists

d) noninterventionist policy

e) three ("real" or "supply") factors determining output and

employment in the classical model

2. A standard policy proposal of people who do not like

government intervention is that the government's deficit be

balanced. We currently have a large deficit, financed by debt

(borrowing). According to the textbook's version of the

classical model of loanable funds, how would reduction of the

deficit affect savings, investment, employment and the real wage?

Explain and illustrate your answer with one or two graphs.

3a. What is meant by unintended inventory accumulation, and what

is the basic explanation of this phenomenon?

3b. In a Keynesian model with a marginal propensity to consume of

0.75, if government expenditures increase by $10 billion, by how

much does output increase? If taxes are constant, by how much

would savings change?

4. Suppose we live in a world of downwardly rigid nominal wages.

Assume the money supply declines. Explain briefly, illustrating

with a graph, what happens to:

Aggregate demand

Prices

Employment

Output

Real wages.

5. Supply siders don't like taxes. One tax which we are already

in a position to analyze theoretically is the personal income

tax.

Explain, illustrating with graphs, the supply side analysis of

the impact of increasing the personal income tax, on: employment,

real wages, prices, and output.

The median on this exam was 55; the high was 95

Econ 301 Exam #2 Fall, 1994 Professor Twomey

Please PRINT your name on the back of the LAST sheet. Questions

are equally weighted. If the question is not clear, ask for an

explanation. Use the backs of these sheets if necessary. Good

luck.

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

a) real money balances

b) auction market

c) direct crowding out

d) supply shock

e) liquidity trap

2. In a standard IS-LM model (with upward sloping aggregate

supply curve), assume that the government increases its

expenditures, financing this with bond sales. What happens to:

a) prices

b) interest rates

c) real output

d) consumption

e) investment

f) the money supply

g) the deficit

3a. What determines the slope of the LM curve? Explain,

illustrating with a graph.

b. In what sense is the situation in which the LM is vertical a

"classical case?"

c. What is monetary accommodation? Illustrate with a graph.

4a. Consider the Keynesian theory of aggregate supply in which

money wages are variable. How does an increase in expected

prices affect the labor market and the aggregate supply schedule.

Explain, illustrating with a graph for each market.

b. Why is the aggregate demand curve downward sloping? Explain,

illustrating with a graph.

5. What is Friedman's constant growth rate rule?

Which of the following strengthen the case for implementing that

rule, and which worsen it? Explain briefly.

a. A stable or an unstable velocity of money

b a steep or a flat IS curve

c a stable or an unstable demand for money

d. accurate or inaccurate forecasts of the main economy

aggregates

The median on this exam was 60. The high was 94

Econ 301 Exam #3 Fall, 1994 Professor Twomey

Please PRINT your name on the BACK of the LAST sheet. Answer on

both sides of these sheets, as necessary. Ask for clarification

of any unclear question. Questions are equally weighted. Good

luck.

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

a) natural rate

b) policy ineffectiveness postulate

c) hysteresis

d) transitory income

e) efficiency wage

2. State and explain briefly three components of the user cost of

capital.

How will government fiscal (or monetary) policy affect each of

those three components, if at all? Explain briefly.

What is the difference between intendedand unintended inventory

accumulation, and why might it be important?

3a). Explain and illustrate with a graph (or two) how the

predictions would differ between a Keynesian and a New Classical

Economist, as to what would happen be the short term effect in

the labor market if there were an expected increase in the money

supply.

According to our text, with which - if any - of these two visions

would a monetarist agree, and why?

4a). Show on a graph how, according to the Life Cycle Hypothesis,

a person's savings would be expected to change over time.

Explain briefly how that relationship would change if:

a) social security programs were eliminated

b) there were a stock market crash during the person's middle age

c) the person were poor and did not have good access to capital

markets as a youth

5) In the text we studied two new orientations in macroeconomics,

called real business cycle and new keynesian. The following are

some factors which, according to one (or both) theory(ies), will

affect output and employment. For each one, identify which model,

state how the factor would affect output and employment, and

explain the reasoning used by the particular school. Sometimes

graphs help in these explanations.

i) There is a decline in unionization in the economy's labor

force

ii) due to a cultural change, people value leisure more, and

consumption less, than was previously the case.

iii) there is a technology shock caused by bad weather

iv) production technology changes such that it is easier to

verify if a worker is loafing on the job

v) the personal income tax is reduced

Econ 301 Final Exam Fall, 1994 Professor Twomey

Please PRINT your name on the BACK of the LAST SHEET. Questions

are equally weighted; if any question is unclear, please ask for

clarification. Use the backs of these sheets if you need space.

Time: unlimited - about one hour.

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

a) endogenous growth

b) Partisan Theory

c) Open Market Desk

d) Ricardian equivalence

e) Structural Deficit

2. Suppose the Federal Reserve is using an interest rate as an

intermediate target, while real income is the ultimate policy

target, and there is an autonomous drop in business investment

that the Federal Reserve had not predicted. Use the IS-LM model

to show the effects of the shock. Would income have been

affected more or less if the Federal Reserve were using a money

stock target?

3a. The textbook discussed in detail two theoretical

interpretations of the demand for money; the Inventory Theoretic

Approach and Tobin's portfolio diversification. Without using

graphs or fancy formulas, what are the major factors each theory

utilizes to explain the demand for money?

b. What is meant by instability of the demand for money in the

U.S. economy during the 1970s and 1980s, and which of the factors

discussed above in the first part of this question are felt to be

most important in explaining that instability?

4a. The public choice view of policy making denies that officials

make their decisions with a disinterested view of what is best

for the economy as a whole, and assert that the officials are

simply vote maximizers. Bad policies, it is argued, result from

bad votes. Identify and discuss three versions of the types of

voter behavior which lead to this result. Is this version of

voters consistent with rational expectations view of us as

economic decision makers?

b. Explain the concept of the money multiplier. What are the

major economic factors which determine its size?

5. In the textbook's discussion of supply side economics, major

attention is focused on the role of taxes. Explain (and

illustrate with a graph) the argument that taxes reduce each of

savings and investment.

Is the focus on savings and investment in agreement with the

findings of Denison on the major sources of economic growth for

the United States? Explain.

Identify one other economic variable that Supply Siders feel is

important for growth of the economy, and that they believe is

significantly hindered by taxes which are "too high."

Explain the link between taxes and this factor.

The median on this exam was 56; the high was 94.

ECON 301 Fall, 1992 Exam #1 Professor Twomey

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

these sheets, using the backs if necessary. Ask for clarification of

any unclear question. Questions are equally weighted. Time: 1 hour.

Good luck.

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

a). twin deficits

b) capital account

c) natural rate of unemployment

d) distinguish between induced and autonomous taxes

e) distinguish between exogenous and endogenous variables

2a. Define crowding out.

Answer with a graph and a short explanation:

b) When is there more crowding out, with a steep aggregate supply

curve, or

a flat one?

c) Is crowding out greater if the LM is steep or flat?

d) Is crowding out greater if the wealth effect on the demand for

money is

large or small?

3. In the text, as well as in class, we contrasted the IS-LM

analyis of a closed economy, which does not engage in foreign trade, with that

of a small open economy with a fixed exchange rate. In which case will

monetary policy be more effective? Show with a pair of graphs.

4a. If Consumption = 100 + 0.9Disposable Income and Taxes = 25 + 0.25Income, What

is the value of the multiplier? By how much does income change if government

expenditures increase by 50?

b. Here's a hard one. The normal derivation of the

IS curve derives its having a slope because of the Marginal Efficiency of

Investment curve, in which investment declines as interest rates rise. One thing

which hasn't been mentioned, yet, is that savings might depend on interest rates,

in which case so will consumption and, finally, the IS curve. Will the

incorporation of the effect of interest rates on saving make the IS curve steeper

or flatter?

5. The textbook has a long discussion about what happened to real

income and interest rates in the US economy during three periods of

contractionary monetary policy.

a) First of all, show what the standard IS-LM analysis says

should happen.

b) If there is a vertical aggregate supply curve, how will that

affect the standard analysis? Show on a graph.

c) The book goes into the details of how the real interest rate

changed in those three episodes. What is the real interest rate, why are we

interested in it, and what should happen to it if there is a

contractionary monetary policy?

Econ 301 Exam #2 Fall, 1992 Professor Twomey

Please PRINT your name on the BACK of the LAST SHEET. You will

lose credit if your name appears anywhere else.

Answer on these sheets, using the backsides if necessary. Ask

for clarification of any ambiguous question. Time: 1 hour.

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

two:

a) Nominal GNP targeting

b) discouraged workers

c) equation of exchange

d) golden rule

e) feedback policy

2. (15 points) If the economy is characterized by supply shocks,

will real wages be pro-cyclical or countercyclical? Explain, illustrating

with parallel graphs of aggregate supply and demand, and the labor

market.

3a.(10 points) What is the "Solow residual" and why is it

important? Give one reason why it may be overestimated, and one why it might be

underestimated?

b. (10 points) What is overshooting, and why might it be

important?

4. Under what circumstances does monetary targeting stabilize the

economy better than interest rate targeting? (15 points)

5. (15 points) Does an unaticipated change in aggregate demand

cause stagflation? Explain, illustrating your answer with a graph.

6. (15 points) The textbook devoted most of Chapter 9 to a

microeconomic based theory of unemployment, which departs from modeling

separately job losers and job gainers.

a) State and explain very briefly two factors which affect job

losses?

b) How do price expectations fit into this model?

c) State and explain very briefly two advantages to this strategy

of explaining unemployment, versus a Phillips curve approach which

would be based on some version of rational or adaptive expectations.

The median on this exam was 65.

Econ 301 Final Exam Fall, 1992 Professor Twomey

Please PRINT your name on the BACK of the LAST SHEET. You will

lose credit if your name appears anywhere else.

Answer on these sheets, using the backsides if necessary. Ask

for clarification of any ambiguous question. Time: 1 hour.

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

a) Real exchange rate

b) Ricardo Barro hypothesis (theorem)

c) Tobin's q

d) Transitory Income

e) J curve

2. What is the life cycle hypothesis? Explain it, and then

present two predictions derived from it, which are relevant for government

policy.

3. Why might floating exchange rates isolate a country from

disturbances caused from overseas? Explain, using a graph if necessary.

b) Is this isolating effect, if true, beneficial or harmful?

Explain.

4. The textbook has a lengthy discussion comparing changes in the

velocity of money with changes in interest rates. Some emphasis is placed

on differing ways of defining money.

a) What is the theoretical prediction of how the velocity of

money should vary with interest rates?

b) Which definition of money is it whose velocity performs most

closely to this prediction?

c) Very briefly, what is the book's explanation of why the other

definitions do not perform as well?

5a. Describe briefly what is meant by the investment accelerator.

b. What practical policy implications does this model predict?

c. How will the accelerator change if:

a) The capital output ratio rises?

b) Real world lags are taken into account

c) The desired capital output ratio is sensitive to interest

rate changes?

The median on this exam was 67.

Econ 301 Final Exam Fall, 1995 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. Ask for clarification if you are unsure of what is

being asked. Time: whatever you need - about an hour. Good luck!

1). Identifications:

a. SDR

b. voter myopia

c. Ricardian equivalence

d. accommodative monetary policy

e. public choice view

2. Suppose that the Federal Reserve is using an interest rate as

an intermediate target, while real income is the ultimate policy

target, and there is an autonomous drop in business investment

that the Fed had not predicted. use the IS-LM model to show the

effects of the shock. Would income have been affected more or

less if the Federal Reserve were using a money stock target?

Explain.

3a. Does an increase in the deficit always lead to an increase in

interest rates? Explain.

b. If the MPC is 0.8 and the marginal tax rate is 0.2, what is

the value of the multiplier?

If a new tax law raises the marginal tax rate to 0.3, what

happens to aggregate demand? What happens to the multiplier?

Explain briefly.

4.Suppose a country with a fixed exchange rate has a balance of

payments surplus. What specific monetary and fiscal policies

would eliminate that surplus? Explain briefly.

b. What is the difference between internal and external balance,

and why isn't the optimal level of income the same in both?

5. Now, suppose a country is on a flexible exchange rate system.

What will happen to the equilibrium exchange rate (appreciate or

depreciate) if that country engages in a tight monetary policy?

Explain your answer with a graph of the market for foreign

exchange, being careful to label the two axes.

b. Why might a floating exchange rate provide "insulation"? In

what cases might this be desirable, and when not? Explain each

answer.

median was 49. High was 82