

EC10007

The University of Bath

DEPARTMENT OF ECONOMICS AND INTERNATIONAL DEVELOPMENT

Year 1 : Semester II : EC10007

**INTRODUCTORY MACROECONOMICS**

**Tuesday, 6 June 2006. 0930 - 1130**

A University calculator is required for this examination

**ANSWER QUESTION 1 IN SECTION A**

**AND**

**ANY TWO QUESTIONS FROM SECTION B**

**Section A: 25% Section B: 75%**

**All questions in Section B carry equal marks**

**PLEASE FILL IN YOUR NAME AND SIGN IN THE SECTION  
ON THE RIGHT OF YOUR ANSWER BOOK/COVER,  
PEEL AWAY ADHESIVE STRIP AND SEAL.**

**TAKE CARE TO ENTER THE CORRECT CANDIDATE NUMBER AS  
DETAILED ON YOUR DESK LABEL.**

## ECO1007: INTRODUCTORY MACROECONOMICS

Answer Question 1 in Section A and any TWO questions from Section B.

### SECTION A

1. Answer any TEN questions. Each of these account for two and a half marks. The question counts for 25% of the overall marks. As a guide you should spend an average of three minutes on each of these and no longer than 30 minutes on Section A overall.

- a) What do we mean when we say government expenditure might 'crowd out' private sector expenditure?
- b) Draw the circular flow of income for a world with two economies. That is you should draw two circular flows with the linkages between them.
- c) Would you expect the capital output ratio to be highest in a developing country or an OECD country such as France? Explain your answer.
- d) In the following closed economy model:

$$\begin{aligned} Y &= C + I + G \\ C &= 100 + 0.6YD \\ YD &= 0.3Y \end{aligned}$$

Where YD is real disposable income and the other variables have their standard interpretation, GDP is 3000. What is the average propensity to consume out of disposable income?

- e) What is the Marshall-Lerner condition?
- f) What is the adaptive expectations theory?
- g) Define M0 and M4.
- h) What is the monetary policy committee?
- i) How can real GDP increase by 4% and nominal GDP increase by 2%?
- j) In the following closed economy model, derive the multiplier

$$\begin{aligned} Y &= C + I + G \\ C &= 100 + 0.6YD \\ YD &= 0.3Y \end{aligned}$$

Where YD is real disposable income and the other variables have their standard interpretation.

- k) In the following equation what are the short and long-run marginal propensities to consume?

$$C_t = 100.0 + 0.3YD_t + 0.3C_{t-1} + 0.1C_{t-2}$$

- l) In the following equation

$$\ln(M_t) = 100.0 + 0.3\ln(Y_t) - 0.5\ln(P_t)$$

where M = imports, Y = GDP, P a measure of the relative price of imports

what impact does a 5% reduction in P have on imports? What impact does a 5% increase in GDP have on imports?

- m) What is the purchasing power parity theory of exchange rate determination?  
n) Give three types of motive for holding money.  
o) Discuss the role of 'con adjustment' in macroeconomic modeling  
p) What is the J curve?

## SECTION B

### Answer any TWO questions

**In the case of multipart questions the proportion of marks relating to each part is indicated in brackets. Students should allocate their time accordingly.**

2. (i) Compare the Keynesian consumption function with Friedman's permanent income model of consumption. (60%)  
(ii) What factors determine investment? (40%)
3. Using IS and LM curves, analyse the impact of (i) an increase in government spending, (ii) an increase in the money supply and (iii) a cut in taxation. Which of these three policies will probably take the longest time to have its full impact on the economy? What is the liquidity trap?
4. Which theory best explains inflation, the expectations augmented Phillips curve or the quantity theory of money?

5. (i) What is an economic cycle? (10%)
- (ii) What reasons can you suggest for the possibility of an economic cycle of approximately five years? (50%)
- (iii) What is the Kondratief cycle and how might Schumpeter's theories help in explaining the possible existence of the Kondratief? (40%)

6. Answer EITHER:

What determines the productivity of UK firms?

OR

Can development aid be effective in increasing GDP for the economies of developing countries in the long-term?

7. (i) Approximately 5 million people are unemployed in Germany. What policies can a government pursue to reduce unemployment? Your answer will require you to discuss the different types of unemployment. Note the discussion does not specifically relate to Germany. (80%)
- (ii) Why might wages be 'sticky'? (20%)