

EC10007

The University of Bath

DEPARTMENT OF ECONOMICS AND INTERNATIONAL DEVELOPMENT

Year 1 : Semester II : EC10007

INTRODUCTORY MACROECONOMICS

Tuesday, 3 June 2003. 1630 - 1830

PLEASE WRITE YOUR NAME IN THE SPACE PROVIDED IN THE  
ANSWER BOOK AND SEAL THE FLAP WITH YOUR  
CANDIDATE NUMBER LABEL

A University calculator is required for this examination

ANSWER QUESTION 1 IN SECTION A AND ANY TWO QUESTIONS  
IN SECTION B

All questions carry equal marks

## ECOI007 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 is Chapter 11 of the US Bankruptcy Code?
- b. Write the national income identity for both a closed economy and an open economy
- c. What is the accelerator theory of investment?
- d. What is the Kondratief cycle?
- e. What is hysteresis?
- f. What is the adaptive expectations theory?
- g. Define M0, M2 and M4.
- h. Draw [and fully label] the Aggregate Demand - Aggregate Supply Diagram.
- i. How can real GDP increase by 2% and nominal GDP increase by 6%?
- j. In the following closed economy model, derive the multiplier

$$\begin{aligned}Y &= C + I + G \\C &= 100 + 0.8YD \\YD &= 0.4Y\end{aligned}$$

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?

$$C_t = 100.0 + 0.3YD_t + 0.5C_{t-1}$$

- l. In the following equation

$$\ln(X_t) = 100.0 + 0.4\ln(WY_t) - 0.6\ln(P_t)$$

where X = exports, Y = World GDP, P a measure of the relative price of exports

what is the export elasticity of imports with respect to world demand? What impact does a 5% reduction in P have on exports?

- m. What is the real rate of interest?
- n. Draw the circular flow of income.
- o. What is the balance of payments?
- p. What do we mean by crowding out?

## SECTION B

### Answer any TWO questions

2. Compare (i) the Keynesian consumption function, (ii) Friedman's permanent income model of consumption and (iii) the life cycle model of consumption. What are their implications for the effectiveness of fiscal policy?
3. Using IS and LM curves analyse the impact of (i) an increase in government spending, (ii) an increase in the money supply on GDP. What is the liquidity trap?
4. Compare the quantity theory of money with the Phillips curve as explanations for inflation.
5. Discuss the processes of building and using a macroeconomic model of the economy such as the Treasury model.
6. What are the options open to the Government to reduce unemployment? Your answer should be couched in general terms and not specifically refer to the UK in 2003. Your answer should also include a discussion on the causes of unemployment.
7. How are exchange rates determined? *Your answer should specifically refer to the survey article by Rogoff in the Journal of Economic Literature.*