

EC10007

The University of Bath

DEPARTMENT OF ECONOMICS AND INTERNATIONAL DEVELOPMENT

Year 1 : Semester II : EC10007

INTRODUCTORY MACROECONOMICS

Thursday, 3 June 2004. 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

## 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 is permanent income in Friedman's permanent income hypothesis?
- (b) If the real rate of interest is 6% and the nominal rate of interest 7%, what is expected inflation?
- (c) What is crowding out?
- (d) What is frictional unemployment?
- (e) What is hysteresis?
- (f) What is the process of creative destruction?
- (g) Define M0, M2 and M4.
- (h) What are the menu costs of inflation?
- (i) What is con adjustment in macroeconomic modelling/forecasting?
- (j) In the following closed economy model, derive the multiplier

$$Y = C + I + G$$
$$C = 100 + 0.6YD$$
$$YD = 0.8Y$$

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?

$$C_t = 100.0 + 0.4YD_t + 0.6C_{t-1}$$

- (l) What are the Marshall-Lerner conditions?
- (m) What is the liquidity trap?
- (n) With specific respect to unemployment, what is hysteresis?
- (o) What is the role of the monetary policy committee?
- (p) What are sticky wages?

## SECTION B

### Answer any TWO questions

2. Discuss the policies which are open to policy makers in attempting to reduce a balance of trade deficit.
  
3. Using IS and LM curves analyse the impact of both (i) a cut in tax rates and (ii) an increase in the money supply on GDP. A cut in taxes should lead to an increase in interest rates, how could the authorities use monetary policy to ensure interest rates stay unchanged?
  
4. Discuss the expectations augmented Phillips curve? To what extent is this compatible with the quantity theory of money?
  
5. Discuss the different types of economic cycles and their causes.
  
6. For this question, answer any TWO of the following three sub questions.
  - (i) Discuss the different theories of investment
  - (ii) Compare and contrast the British and American bankruptcy (with respect to firms) systems
  - (iii) Why does the aggregate supply curve slope upwards and the aggregate demand curve slope downwards?
  
7. ***With specific reference to Rogoff's article in the Journal of Economic Literature***, discuss the validity of the PPP hypothesis of exchange rate formation and the alternatives to this hypothesis.