

EC10007

The University of Bath

DEPARTMENT OF ECONOMICS AND INTERNATIONAL DEVELOPMENT

Year 1 : Semester II : EC10007

INTRODUCTORY MACROECONOMICS

Monday, 20 June 2005. 1300 - 1500

**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 FROM SECTION B

Section A: 25% Section B: 75%
All questions in Section B carry equal marks

EC10007: 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 the rational expectations theory?
- b) Draw the circular flow of income.
- c) What does the liquidity trap imply for monetary policy?
- d) Explain the following identity $MV \equiv PQ$
- e) What role does the capital output ratio play in the naïve accelerator model of investment?
- f) Draw the expectations augmented Phillips curve
- g) What is the Kondratief cycle?
- h) Are the shoe leather costs of inflation likely to be greater in towns or country villages?
- i) Distinguish between the transactions, speculative and precautionary demand for money.
- j) In the following closed economy model, derive the multiplier

$$\begin{aligned} Y &= C + I + G \\ C &= 100 + 0.4YD \\ YD &= 0.5Y \end{aligned}$$

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

- k) In the following equation:

$$\ln(X_t) = 100.0 + 0.4\ln(YW_t) + 0.5\ln(X_{t-1})$$

where X is exports, and YW world demand and $\ln(X)$ denotes the log (to the base e) of X , etc. World demand increases by 2%. How much do exports increase by in the short-run and in the long-run?

- l) Distinguish between an ex-post and an ex-ante forecast.
- m) Write down the equation linking the real to the nominal rate of interest.
- n) What is the role of the Monetary Policy Committee of the Bank of England?
- o) What is Chapter 11 of the US Bankruptcy Code?
- p) What is Schumpeter's process of creative destruction?

SECTION B

Answer any TWO questions

- 2. Critically evaluate the Keynesian consumption function. This involves comparing it with other theories.
- 3. Compare the use of IS and LM curves with that of aggregate demand and supply curves in analyzing the impact of a cut in taxes on the economy.
- 4. What options are open to governments in reducing unemployment? This involves a discussion of the causes of unemployment.
- 5. What options are open to the British government to deal with a balance of trade deficit?
- 6. With reference to the paper by Alan Taylor & Mark Taylor in the Journal of Economic Perspectives, Vol. 18, Fall 2004, explain and critically evaluate the purchasing power parity theory of exchange rate determination.
- 7. What can the developed countries, the donor agencies such as the World Bank, and indeed the developing countries themselves, do to boost growth in the developing countries?