

Name _____
Sign the pledge:
No Aid; No Violations _____

Mike Lovell
2:00-5:00, December 17, 1996
Room PAC 107

Econ 105: Final Examination

Instructions:

You will be allowed a maximum of three (only 3) hours for this examination, no more. Budget your time carefully. Save time at the end of the test to read over your answers and make corrections.



HINTS: Take advantage of the opportunities presented on this test to demonstrate that you have mastered the appropriate analytical techniques. Draw neat graphs!

If you would like us to mail your exam to your home, leave a stamped addressed envelop in the slot for this course in the Economics Alcove. Otherwise, your work will be returned to the alphabetical slots in the Economics Alcove to be picked up at the start of classes for the second semester.

If you want additional feedback on any aspect of your work, please contact me at your convenience for an appointment.

Part 1: (35 points) Compare and contrast five of the following pairs of concepts. Be sure to demonstrate that you have a clear understanding of both the meaning and the significance of each concept. Use graphs where appropriate in order to clarify your presentation. Answer in bluebook

- 1.1 Efficient versus equitable allocation of resources.
- 1.2 Labor force participation rate versus the unemployment rate
- 1.3 Open market operations versus changes in the discount rate
- 1.4 Monopoly versus monopsony
- 1.5 IS versus the LM curve
- 1.6 Real versus the nominal rate of interest

Part II: (35 points) Please answer the following questions on the examination sheet; if you run out of space continue on back. Show your computations.

- 2.1 Suppose that in Simple Land the consumption function is $C = 10 + .8Y$, that $Y = C + I + G$, and that $I = 5$ and $G = 15$.
 - a. Solve for the equilibrium levels of Y and C .

- b. Suppose that government spending increases from 15 to 30 while I is unaffected. What will happen to Y and C ?
- c. The government spending multiplier, for this problem, is:
- 2.2 Suppose that $I = 15 - 50r$, where r is the rate of interest. (Thus if $r = 20\%$ investment will be 5).
- a. Find Y , given that $r = 10\%$ and $G = 15$, using the equations from 2.1 together with the above investment equation.
- b. Find the reduced form equation explaining output as a function of the interest rate and government spending.

- c. Carefully plot the “IS Curve” on a graph for $G = 15$. Label the abscissa and ordinate appropriately. Show how the curve would shift if G increased to 20.
3. Suppose the demand for money (real) in Never-Never land is $M_d^r = 0.5Y - 100r$. Suppose that the Fed has allowed the banking system to create a nominal money supply of $M_s = 120$. Suppose also that the price level (1988=100) is 150.
- a. What is the real money supply?
- b. If Y were equal to 180, what would be the equilibrium rate of interest.
4. Suppose the Fed wishes to reduce inflationary pressure in Simple Land. What policy measures would you recommend? What side effects would you worry about in administering this remedy?

PART 3: (15 points) Consider the table of data for the U. S. economy during the Great Depression of the 1930's.

3.1 Show your mastery of macroeconomic indicators by carefully defining the following concepts in your bluebook:

GDP (1987 dollars)
Disposable Income
Consumer price index
M1

3.2 Write a brief essay explaining the most intriguing and surprising economic aspects of the Great Depression. How severe was the depression? On the basis of the evidence presented in the table, to what would you attribute the collapse of the economy. Was it mistaken policy of the Federal Reserve System? Was it errors in fiscal policy? What policy would you prescribe in order to get the economy rolling again? What additional evidence would you like to have in resolving these issues?

Honors Option: (Do not attempt to answer this question until you have checked over your answers to the standard questions — credit will not be given for a partial answer to the Honors Option.)

A utility maximizing consumer has utility function $U = (A-5)^{2/3} (B-5)^{1/3}$, where A is the quantity of apples and B is the quantity of Bananas consumed. Determine the consumers demand function for apples.

Enjoy your vacation — You Earned it!