

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

Mike Lovell
9:00-12:00, December 21, 1998
Room PAC 136

Econ 105: Final Examination

Please Note:

- The exam will end at 12:00 noon! Budget your time carefully
- Save time to read over your answers and make corrections at the end of the test.
- Start your answers in the space provided, but continue if necessary on the back of the page or on a separate sheet of paper. Extra sheets are available in the front of the room.
- Show your calculations in order that you may receive partial credit even if you make a numerical error.
- If you would like me to mail your exam to your home, leave a stamped addressed envelope in the slot for this course in the Economics/Sociology Alcove. Otherwise, your work will be returned to the alphabetical slots in the 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.
- **Help!** I will not remain in the classroom during the examination, but I will drop in occasionally to answer any questions you may have. If you have a serious problem, you may find me in my office, room 308 PAC, x2355



Part I: [40points]

1. The Bureau of Labor Statistics reports on its home page [<http://www.bls.gov/eag.table.html>] that in November the labor force was 138,253 thousand, unemployment was 6,099 thousand and the unemployment rate 4.4%.
 - a. The number Employed in November was _____
 - b. The unemployment rate is defined as follows:
 - c. The Labor Force Participation Rate is defined as follows

Part II. (40 points)

1. Here are the equations for a simple macro economic model

$$(1) \quad C = c_0 + c_1 Y_d \quad (\text{Consumption Function})$$

$$(2) \quad Y_d = d_0 + d_1 Y \quad (\text{Disposable Income Function})$$

$$(3) \quad Y = C + I + G + X - M \quad (\text{GDP identity})$$

$$(4) \quad M = m_0 + m_1 Y \quad (\text{imports})$$

- a. Place a circle around each of the exogenous variables of this model.
- b. Derive the equation showing consumption as a function of GDP.
- c. Derive the reduced form equation showing Y as a function of the exogenous variables.
- d. Determine the multiplier effect on GDP of a \$10 billion decline in government spending on goods and services.
- e. How will the balance of trade (exports – imports) be affected by the \$10 billion cut in government spending?
- f. Explain how the above model can be modified in order to generate the IS curve (GDP plotted on the abscissa; the interest rate on the ordinate)

4. Newspapers reported on December 17, 1998:

The Russian government won the go-ahead from parliament Wednesday to begin printing billions of rubbles in a bid to help pay the state's crushing debt... Russia's parliament unanimously approved a bill Wednesday that allows the government to print \$1.2 billion worth of rubles in the last quarter of this year. Russia's cash strapped government needs the extra rubles to payoff workers and pensioners...

What will be the likely effects of this action?

Is this an appropriate way for a nation to finance its government expenditures? Explain carefully, taking advantage of this opportunity to show your understanding of basic macroeconomic principles by developing the appropriate analytical apparatus.

Part III (20 points) The table on the next page attempts to summarize major economic developments in the United States over the last 70 years.

Please write an essay on one (only 1) of the decades that you find of particular interest. In your essay you should identify the events of the decade you select which are of special interest. Then explain what happened. You should also mention any additional data that might provide useful information about the decade that you have chosen to examine.

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 $U = (A-5)^{1/3} (B-5)^{2/3}$, where A is the quantity of apricots and B is the quantity of Balony consumed. Determine the consumers demand function for apricots.

Enjoy your vacation — You Earned it!