

Week 11 Tutorial

ECON203: Macroeconomics 2

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Semester 2, 2019

Tutorial Time: 18/10/2019

Multiple Choice Questions

Question 1. The FE line shows the level of output at which the _____ market is in equilibrium.

- (a) Goods
- (b) Asset
- (c) Labour
- (d) Money

Question 2. Which of the following would shift the FE line to the right?

- (a) An adverse supply shock
- (b) An increase in labour supply
- (c) A decrease in the capital stock
- (d) An increase in the future marginal productivity of capital

Question 3. The IS curve shows the combinations of output and the real interest rate for which

- (a) the goods market is in equilibrium.
- (b) the labour market is in equilibrium.
- (c) the financial asset market is in equilibrium.
- (d) an increase in output will cause the market-clearing interest rate to be bid up.

Question 4. An increase in the money supply would cause the FE line to

- (a) shift to the right.
- (b) shift to the left.
- (c) remain unchanged.
- (d) remain unchanged if Ricardian equivalence holds; otherwise, shift to the right.

Question 5. Any change that reduces desired saving relative to desired investment (for a given level of output) causes the real interest rate to _____ and shifts the IS curve _____

- (a) increase; down and to the left
- (b) increase; up and to the right
- (c) decrease; down and to the left
- (d) decrease; up and to the right

Question 6. A decline in expected future output would cause the IS curve to

- (a) shift up and to the right.
- (b) shift down and to the left.
- (c) remain unchanged.
- (d) shift up and to the right only if people face borrowing constraints.

Question 7. A decrease in wealth would cause the IS curve to

- (a) shift up and to the right.
- (b) shift down and to the left.

- (c) remain unchanged.
- (d) shift up and to the right only if people face borrowing constraints.

Question 8. A rise in the price of a bond causes the yield of the bond to

- (a) rise.
- (b) fall.
- (c) remain unchanged.
- (d) rise if it's a short-term bond, fall if it's a long-term bond.

Question 9. A change that increases the real money supply relative to real money demand causes

- (a) the *LM* curve to shift down and to the right.
- (b) the *LM* curve to shift up and to the left.
- (c) the *IS* curve to shift down and to the left.
- (d) the *IS* curve to shift up and to the right.

Question 10. You have just read that the Reserve Bank of Australia has increased the money supply to avoid a recession. For a given price level, you would expect the *LM* curve to

- (a) shift up and to the left as the real money supply falls.
- (b) shift up and to the left as the real money supply rises.
- (c) shift down and to the right as the real money supply falls.
- (d) shift down and to the right as the real money supply rises.

Problem Solving Questions

Question 11. What are IS shocks and give an example from the real world?

Question 12. What are LM shocks and give an example from the real world?

Question 13. How does the efficiency of monetary policy depend on the shape of IS curve (and why)?

Question 14. Explain the spending hypothesis of determinants of the Great Depression.