



Student Number

Family Name

First Name

School of Arts – VIC
EXAMINATION

Semester 2 Main, 2019

ECON203 - 4M MACROECONOMICS 2 – Melbourne

Lecturer: Dr. Lei Pan

Examination Duration: 120 minutes

Weighting: 50%

Exam Conditions:

CLOSED BOOK exam

No calculators are permitted in this exam

Materials Permitted In The Exam Venue:

None

Materials To Be Supplied To Students:

1 x Writing Booklet (7-page)

1 x True/False and Multiple Choice Answer Sheets

Instructions To Students:

1. This exam consists of **THREE** sections: Section A: TRUE/FALSE question section, Section B: multiple choice question section and Section C: problem solving section.
2. Read each statement in Section A carefully. State “TRUE” or “FALSE” for each of the statement. You **MUST** justify your answers. There are two questions in total, each of them is worth 5 marks.
3. Read each multiple choice question and answer choice carefully and choose the **ONE** best answer. There are 15 questions in total, each of them is worth 2 marks.
4. The third section contains three problem solving questions. Student must answer **ALL** of them carrying 60 marks in total.

5. Answer each question in Section C on a **FRESH page** of the answer book.
6. Try to answer all questions. In general, if you have some knowledge about a question, it is better to try to answer it. You will not be penalized for guessing.
7. You may work on the TRUE/FALSE questions, multiple-choice questions and problem solving questions in any order that you choose. Be sure to allocate your time carefully so you are able to complete the entire exam within the exam session.

Section A (TRUE/FASLE Questions) [Total = 10 marks]

Consider each of the following statements. Say whether you believe the statement is true or false. Briefly explain you answer in words. Note that most of the marks will be given for the explanation.

Question 1. [5 marks] If country A loses some capital stock due to a disaster (which is a transitory shock), households will save less and the investment will not change.

Question 2. [5 marks] If there are two countries A and B in the world, country A loses some capital stock due to a disaster, country B's current account will fall.

Section B (Multiple Choice Questions) [Total = 30 marks]

Choose ONE of the best answers for each of the following questions. Each question is worth 2 marks.

Question 3. [2 marks] The two most comprehensive, widely accepted macroeconomic models are

- (a) the classical model and the supply-side model.
- (b) the supply-side model and the real business cycle model.
- (c) the classical model and the Keynesian model.
- (d) the Austrian model and the Keynesian model.

Question 4. [2 marks] Aggregation is the process of

- (a) calculating real GDP based on nominal GDP and the price index.
- (b) summing individual economic variables to obtain economy wide totals.
- (c) Forecasting the components of GDP.
- (d) Predicting when recessions will occur.

Question 5. [2 marks] Positive analysis of economy policy

- (a) examines the economic consequences of policies but does not address the question of whether those consequences are desirable.
- (b) examines the economic consequences of policies and addresses the question of whether those consequences are desirable.
- (c) generates less agreement among economists than normative analysis.
- (d) is rare in questions of economic policy.

Question 6. [2 marks] Frictional unemployment arises when

- (a) unskilled or low-skilled workers find it difficult to obtain desirable, long-term jobs.
- (b) labour must be reallocated from industries that are shrinking to areas that are growing.
- (c) workers must search for suitable jobs and firms must search for suitable workers.
- (d) output and employment are below full-employment levels.

Question 7. [2 marks] According to Okun's Law, an increase in the unemployment rate will cause _____ in the level employment and _____ in the level of output.

- (a) an increase; an increase
- (b) an increase; a decrease
- (c) a decrease; an increase
- (d) a decrease; a decrease

Question 8. [2 marks] The equilibrium level of employment, achieved after the complete adjustment of wages and prices, is known as the

- (a) zero-unemployment level of employment.
- (b) natural state.
- (c) invisible handshake.
- (d) full-employment level of employment.

Question 9. [2 marks] A curve that connects all the consumption combinations that yield the same level of utility is known as

- (a) an isoquant.
- (b) a yield curve.
- (c) a budget line.
- (d) an indifference curve.

Question 10. [2 marks] An invention that raises the future marginal product of capital would cause an increase in desired investment, which would cause the investment curve to shift to the _____ and would cause the real interest rate to _____

- (a) right; increase
- (b) right; decrease
- (c) left; increase
- (d) left; decrease

Question 11. [2 marks] An increase in the expected real interest rate tend to

- (a) raise desired savings only.
- (b) raise desired investment only.
- (c) raise both desired savings and desired investment.
- (d) raise desired savings, but lower desired investment.

Question 12. [2 marks] Government policies to raise the productivity growth include all of the following EXCEPT

- (a) improving infrastructure.
- (b) encouraging research and development.
- (c) reducing the government budget surplus.
- (d) improving human capital development.

Question 13. [2 marks] Unconditional convergence means that in the long run,

- (a) living standards converge only within groups of countries have similar characteristics.
- (b) living standards converge only for countries that have the same initial capita-labour ratio.
- (c) living standards around the world become the same.
- (d) difference persist in living standards around the world.

Question 14. [2 marks] Large differences in inflation rates among countries are almost always the result of large differences in

- (a) productivity.
- (b) real income growth.
- (c) the growth rates of real money demand.
- (d) the growth rates of nominal money supplies.

Question 15. [2 marks] If there is a financial panic and increased uncertainty about the returns in the stock market and bond market, what is the likely effect on money demand?

- (a) Money demand declines first, then rises when inflation increases.
- (b) Money demand rises.
- (c) The overall effect is ambiguous.
- (d) Money demand declines.

Question 16. [2 marks] The aggregate demand curve shows the combinations of output and price level that put the economy on

- (a) the *FE* line and the *IS* curve.
- (b) the *FE* line, the *IS* curve, and the *LM* curve.
- (c) the *IS* curve.
- (d) the *IS* curve and the *LM* curve.

Question 17. [2 marks] Which of the following changes shifts the AD curve down and to the left?

- (a) A temporary increase in government purchases
- (b) A rise in the nominal money supply
- (c) A decrease in corporate taxes
- (d) A decrease in consumer confidence

Section C (Problem Solving Questions) [Total = 60 marks]

Question 18. [20 marks] **Classifying Transactions.** Classifying the following as a transaction reported in a sub-component of the current account or the capital and financial accounts of the two countries involved:

- (a) [4 marks] A California-based mutual fund buys shares of stocks on the Tokyo and London stock exchanges.
- (b) [4 marks] The U.S. army buys food for its troops in South Asia from vendors in Thailand.
- (c) [4 marks] A Yale graduate gets a job with the International Committee of the Red Cross working in Bosnia and is paid in Swiss Francs.

- (d) [4 marks] The Russian government hires a Dutch salvage firm to raise a sunken submarine.
- (e) [4 marks] A Colombian drug cartel smuggles cocaine into the United States, receives a suitcase of cash, and flies back to Colombia with that cash.

Question 19. [20 marks] Use the saving-investment diagram to analyse the effects of the following on national saving, investment, and the real interest rate. Explain your reasoning.

- (a) [5 marks] Consumers become more future-oriented and thus decide to save more.
- (b) [5 marks] The government announces a large, one-time bonus payment to veterans returning from a war. The bonus will be financed by additional taxes levied on the general population over the next five years.
- (c) [5 marks] The government introduces an investment tax credit (offset by other types of taxes, so total tax collection remain unchanged).
- (d) [5 marks] A large number of accessible oil deposits are discovered, which increases the expected future marginal product of oil rigs and pipelines. It also causes an increase in expected future income.

Question 20. [20 marks] Use the IS-LM model to determine the effects of each of the following on the general equilibrium values of the real wage, employment, output, real interest rate, consumption, investment and price level.

- (a) [5 marks] A reduction in the effective tax rate on capital increases desired investment.
- (b) [5 marks] The expected rate of inflation rises.
- (c) [5 marks] An influx of working-age immigrants increases labour supply (ignore any other possible effects of increased population).
- (d) [5 marks] Increased usage of automatic teller machines reduces demand for money.

END OF EXAMINATION