

Name:
Section No.:
UM ID No.:
GSI:

Economics 102
Introduction to Macroeconomics
Prof. Alan Deardorff
Final Exam
December 21, 2000

INSTRUCTIONS: READ CAREFULLY!!!

1. Please do not open the exam book until you are told to do so.
2. **PLACE YOUR NAME, UM ID NO. (ALL EIGHT DIGITS), AND SECTION NUMBER ON THE EXAM AND ON THE SCANTRON SHEET. ALSO PLACE THE FORM NUMBER, WHICH YOU CAN FIND AT THE TOP OF PAGE 2, ON THE SCANTRON. ALL OF THIS IS WORTH TWO POINTS ON THE EXAM.**
3. This exam has 100 points and is designed to take about 90 minutes to complete. However, you have approximately 120 minutes to complete the test. Check that you have all **16** pages of the exam.
4. **Section A** consists of 35 multiple choice questions worth 2 points each. Answers to the multiple-choice questions in Section A should be marked on the scantron sheet using a #2 pencil. There are no penalties for guessing.
5. **Section B** consists of 3 parts for which you must provide written answers on these sheets. Point values for questions in Section B are indicated in parentheses. Please try to fit your answer into the space provided.
6. Good luck!

<u>GSI</u>	<u>Sections</u>	
Tom Bishop	112, Thu 10-11:30	113, Thu 8:30-10
Brahima Coulibaly (Coul)	102, Wed 1-2:30	103, Wed 2:30-4
Herman Kamil	101, Thu 4-5:30	109, Thu 1-2:30
Yener Kandogan	111, Thu 2:30-4	
George Li	105, Thu 4-5:30	115, Wed 1-2:30
Byung-ho Suh (Chris)	107, Thu 10:11:30	108, Thu 1-2:30
Hui-chen Wang	110, Thu 2:30-4	114, Thu 10:11:30
Yingbin Xiao	104, Wed 2:30-4	116, Thu 4-5:30

FORM 7

PART A: Multiple Choice (2 points each; 70 points total)

A.1. Suppose the real output of the economy is above its natural rate. The government is concerned about the possibility of rising inflation. Which of the following will make sense?

- (a) Congress increases unemployment benefits, increasing the natural rate of unemployment.
- (b) Congress increases expenditures, crowding out investment and cooling the economy.
- (c) The Fed buys bonds, forcing up interest rates and increasing savings.
- (d) The Fed raises the discount rate, forcing up interest rates, thus reducing investment.
- (e) The Fed lowers the reserve ratio, forcing down interest rates, thus reducing savings.

A.2. Which of the following would NOT be included in the Gross Domestic Product for 2000?

- (a) Goods that are produced in 2000
- (b) The tuition that you paid for this semester
- (c) Sale of your used textbook back to the bookstore the day after this exam
- (d) The increase in publishers' inventories of new textbooks in 2000
- (e) Lawyers' fees in 2000

A.3. Consider an economy currently in short-run equilibrium at a level of output less than the natural rate of output. All of the following are possible ways the economy could return to equilibrium at the natural rate of output EXCEPT:

- (a) The government raises taxes to balance the budget.
- (b) The Fed purchases government bonds.
- (c) As the economy experiences unemployment above the natural rate, there will be downward pressure on wages.
- (d) The Fed reduces the reserve requirement.
- (e) The government increases transfers paid as welfare benefits.

A.4. The Fed lowered the discount rate during period 1990 to 1992 and then raised the discount rate from 1992 to 1995. With this information, it is likely that policy makers were most concerned about _____ in the first period and _____ in the second period.

- (a) unemployment, trade deficit
- (b) inflation, trade deficit
- (c) unemployment, inflation
- (d) inflation, unemployment
- (e) none of the above

A.5. Ignoring any crowding out effect and any increase in the price level, if the $MPC=0.75$ and government purchases increase by \$100 million, aggregate demand should increase by

- (a) \$500 million
- (b) \$400 million
- (c) \$75 million
- (d) \$100 million
- (e) \$133 million

A.6. Suppose the Japanese government were to implement simultaneously both a fiscal expansion and a monetary contraction that together keep aggregate demand unchanged. We would expect all of the following to happen in response EXCEPT:

- (a) investment in Japan would decrease
- (b) the interest rate would rise in Japan
- (c) budget deficit of Japan would increase
- (d) the price level would rise in Japan
- (e) Japanese real GDP would not change

A.7. You take \$1000 that you had previously kept under your mattress and deposit it in your bank account. Assume that banks only hold reserves equal to 20% of deposits, and nobody else holds additional cash. If this \$1000 stays in the banking system as reserves from now on, then by how much does the money supply change?

- (a) -\$1000
- (b) \$0
- (c) \$1000
- (d) \$4000
- (e) \$5000