**LEBANESE AMERICAN UNIVERSITY – BYBLOS**

**Macroeconomics 202**

Second Midterm—Fall 2013

**SAMPLE**

**The exam will cover chapters 23, 24, 25, and 26. All chapter notes are on Blackboard.**

**Part I - Multiple Choice (20 questions; 60 points)**

Note to Class: The following questions are illustrative only. You might get similar questions on the exam.

Which of the following statements is NOT correct?

a. A firm may not always end up investing the exact amount that it planned to.

b. Planned consumption is always equal to actual consumption.

c. Firms can choose how much new plant and equipment they wish to purchase in any given period.

d. Firms have complete control over inventory investment.

e. A firm's change in inventory equals its production minus its sales.

An *increase* in the marginal propensity to save (*MPS*) will tend to cause

a. the *PAE* line to become flatter and a given change in planned investment to have a smaller effect on output.

b. the *PAE* line to become flatter and a given change in planned investment to have a greater effect on output.

c. the *PAE* line to become steeper and a given change in planned investment to have a smaller effect on output.

d. the *PAE* line to become steeper and a given change in planned investment to have a greater effect on output.

e. None of the above

Suppose actual investment is less than planned investment. Given this information, we know with certainty that

a. the economy is not equilibrium.

b. firms' inventories are falling.

c. income is less than planned aggregate expenditures.

d. output will tend to rise.

e. All of the above

Based on the terminology used by economists,

a. investment represents the purchase of assets such as a stock or bond.

b. investment does not necessarily imply acquiring something that can create future value.

c. firms invest when they acquire additional inventories.

d. investment by banks is a direct form of investment.

e. none of the above

A bank has reserves of $60, loans of $110, deposits of $130, and net worth of $40. Which of the following represents the bank's total assets?

a. 110

b. 180

c. 170

d. 40

e. 150

The money multiplier represents the multiple that deposits can \_\_\_\_\_\_ for every dollar \_\_\_\_\_\_ in \_\_\_\_\_\_.

a. increase; increase; assets

b. increase; increase; deposits

c. increase; increase; reserves

d. decrease; decrease; deposits

e. decrease; increase; deposits

Suppose equilibrium output needs to rise by 1000. Also assume that the marginal propensity to consume (*MPC*) equals .9. Given this information, how much does planned investment have to increase to cause equilibrium output to rise by 1000?

a. 100

b. 150

c. 200

d. 250

e. 400

Changes in taxes or spending that are the result of deliberate changes in government policy are called \_\_\_\_\_\_ policy.

a. nondiscretionary fiscal

b. discretionary fiscal

c. nondiscretionary monetary

d. discretionary monetary

e. public financial

Late last year it was reported that the Lebanese government was considering a small increase in VAT in order to increase revenues. From the perspective of the government, this action probably represents

1. part of the expansionary monetary policy that is needed in order to help the economy recover from the international recession.
2. part of the expansionary fiscal policy that is needed in order to reduce interest rates.
3. part of a package of measures intended to encourage foreign investment in the country.
4. part of the automatic stabilizers that may help the economy on the long run.
5. None of the above.

Assume that *C* = 100 + .9(*Y* - *T*), net taxes are $100 billion, government purchases are $200 billion, and planned investment is $100 billion. Then an output of $2,000

a. equals the equilibrium level of output.

b. is below the equilibrium level.

c. is above the equilibrium level.

d. results in a positive change (increase) in unplanned inventory.

e. results in no change in unplanned inventory.

A closed government-less economy is described as follows: *C* = 200 + .75*Y*, planned investment = $150 billion, and aggregate income = $1000 billion. Then, in this economy

a. unplanned changes in inventories will be zero.

b. there will be an unplanned rise in inventory.

c. aggregate output will tend to decrease

d. aggregate output will tend to increase.

e. the economy is in equilibrium.

In the leakages/injections approach to equilibrium in an economy, we have

a. *Y* = *C* + *PI* + *G*

b. *C* - *S* - *T* = Disposable income

c. *S* = *PI*

d. *G* = *T*

e. None of the above

Suppose the economy is in equilibrium and that *G* > *T*. Given this information, we know that

a. *S* = *PI*.

b. *S* > *PI*.

c. *S* < *PI*.

d. *S* + *T* > *PI* + *G*.

e. *S* + *T* < *PI* + *G*.

Which of the following statements about M1 and M2 are correct?

a. M1 is transactions money and M2 is broad money.

b. M1 is broad money and M2 is transactions money.

c. M1 is money and M2 is token money.

d. M1 is token money and M2 is fiat money.

e. M1 is legal tender and M2 is commodity money.

If a bank has $1,000 of deposit liabilities, a reserve requirement ratio of 10%, and actual reserves of $100, then the bank has

a. excess reserves of $100.

b. no excess reserves.

c. required reserves of $200.

d. negative required reserves.

e. negative excess reserves.

If the central bank wanted to reduce the market interest rate, it would

a. raise the discount rate.

b. decrease the reserve requirement.

c. contract the money supply.

d. sell government securities in the open market.

e. try to reduce bank reserves.

A(n) \_\_\_\_\_\_ in \_\_\_\_\_\_ the equilibrium interest rate.

a. increase; *P* decreases

b. reduction; *P* decreases

c. decrease; *P* increases

d. increase; *Y* decreases

e. decrease; *Y* increases

Suppose there is a central bank purchase of bonds. This purchase of bonds will cause

a. a leftward shift in the money demand curve.

b. a reduction in the interest rate.

c. a reduction in the equilibrium quantity of money.

d. a rightward shift in the money demand curve.

e. no effect on the interest rate.

An increase in bank reserves leads to a(n) \_\_\_\_\_\_ one-for-one \_\_\_\_\_\_ in the money supply.

a. less than; increase

b. exactly; increase

c. greater than; increase

d. less than; decrease

e. None of the above

If the central bank wants to increase the interest rate, it

a. increases the amount of reserves in the banking system.

b. sells government securities.

c. makes it easier for banks to create additional deposits.

d. decreases the discount rate.

e. none of the above.

An expansionary fiscal policy is a(n) \_\_\_\_\_\_ in \_\_\_\_\_\_ aimed at \_\_\_\_\_\_ aggregate output.

a. increase; government spending; reducing

b. increase; the money supply; increasing

c. reduction; the money supply; reducing

d. reduction; net taxes; decreasing

e. None of the above

Which of the following statements is correct?

a. A low interest rate does not stimulate spending.

b. The central bank does not have the power to influence events in the goods market.

c. A high interest rate stimulates investment.

d. Changes in interest rates do not affect the equilibrium level of aggregate output in the goods market.

e. The central bank can change aggregate output by changing the interest rate.

**Part II- Essays/Problems (40 points)**

Note to Class: You will get two (2) of the following questions on the exam. Careful *written* preparation is recommended. Answers must be comprehensive and precise.

1) You are given the following data concerning Lebanesia. Use this information to calculate the terms required in a-d. Show your formula/method and all your work.

(1) Consumption function: C = 400 + .80 Y

(2) Planned investment function: PI = 800

(3) PAE = C + PI

(4) PAE = Y

a. Calculate the multiplier

b. Graph equations (3) and (4) and solve for equilibrium income.

c. Suppose PI increases by 50. By how much does equilibrium income change as a result?

d. Explain the general relationship, according to the Keynesian model, between actual and planned investment. [A full explanation is required.]

2) Assume an economy is represented by the following:

*C* = 500 + .75*Y*d *G* = 1000

*PI* = 800 *T* = 1000

(a) Suppose actual output is 5000. What is the level of planned expenditures at this level of output?

(b) Are there any unplanned changes in inventories at this level of output? If so, indicate how much and whether negative or positive. Briefly explain the implications.

(c) Calculate the equilibrium level of output.

(d) Suppose that *G* and *T* simultaneously increase by 300. Calculate the new equilibrium level of income USING THE SHORTEST ROUTE.

3) Draw a graph of the aggregate expenditure function of an economy with government. Using the graph, explain how equilibrium output is determined. Show graphically the effect on this level of output if government spending and taxes are increased by the same amount. What is the balanced-budget multiplier? Why?

4) Define automatic stabilizers and mention the two primary types of these stabilizers. Explain how automatic stabilizers operate within the economy during a recession and during an expansion.

5) This problem has three parts:

a) Briefly explain the money multiplier concept using a short table to illustrate how it may work.

b) Suppose the central bank buys bonds worth $250 million on any particular day and that the required reserve ratio is 10%. Calculate the money multiplier and the total potential expansion of the nation’s money supply.

c) Explain two ways in which the Central Bank can influence the money supply.

6) Carefully present the two theories behind the negative slope of the money demand curve.