**LEBANESE AMERICAN UNIVERSITY – BYBLOS**

**Macroeconomics 202**

 Final Exam—Fall 2013

**SAMPLE**

**Part I - Multiple Choice (10 questions; 30 points)**

\*\*\*Note to Class: The questions in this section will cover only the material in chapters 27, 28, and 34.

You will get similar questions on the exam, but not necessarily the same questions or the same topics. The notes are on the blackboard system.

An answer key for these questions will be placed on the BB by Friday, January 24.

Contractionary monetary policy and expansionary fiscal policy would

 a. drive the interest rate down and planned investment up.

 b. decrease both the interest rate and investment.

 c. leave changes in the interest rate and investment undetermined.

 d. increase both the interest rate and investment.

 e. None of the above

A policy mix that consists of a decrease in government spending and an increase in the money supply would favor \_\_\_\_\_\_ spending over \_\_\_\_\_\_ spending.

 a. investment; export

 b. government; investment

 c. investment; government

 d. consumption; investment

 e. government; consumption

Suppose there is a simultaneous increase in the money supply and increase in taxes. Given this information, we know with certainty that

 a. *r* will decrease and *Y* will increase.

 b. *r* will increase and *Y* will decrease.

 c. *Y* will decrease.

 d. *r* will decrease.

 e. investment will decrease.

Contractionary monetary policy combined with expansionary fiscal policy would

 a. have uncertain effects on the interest rate and planned investment.

 b. drive income and consumption up

 c. drive income and consumption down.

 d. drive the interest rate up and planned investment down.

 e. drive the interest rate down and planned investment up.

The effects of a contractionary monetary policy are that \_\_\_\_\_\_ less than if \_\_\_\_\_\_ did NOT \_\_\_\_\_\_.

 a. *Y* decreases; *r*; decrease

 b. *r* increases; *M*d; increase

 c. *r* increases; *M*d; decrease

 d. *Y* increases; *r*; increase

 e. *G* increases; *M*d; increase

A(n) \_\_\_\_\_\_ in *G* generally \_\_\_\_\_\_ both *Y* and *r*.

 a. increase; decreases

 b. increase; has no effect on

 c. increase; causes no change in

 d. decrease; increases

 e. decrease; decreases

As investment becomes less responsive to (i.e., sensitive to) changes in the interest rate, we know that

 a. a given increase in the money supply will cause a smaller change in *Y*.

 b. a given increase in the money supply will cause the same change in *Y*.

 c. a given increase in the money supply will cause a larger change in *Y*.

 d. the effectiveness of monetary policy in changing output is increased.

 e. None of the above

If the aggregate supply curve is vertical in the long run, \_\_\_\_\_\_ has(have) an effect on aggregate output in the long run.

 a. monetary and fiscal policy

 b. monetary policy does but fiscal policy does not

 c. monetary policy does not but fiscal policy does

 d. neither monetary nor fiscal policy

 e. sometimes but not always the two policies do

An increase in technology will cause

 a. a rightward shift in the *AD* curve.

 b. a leftward shift in the *AD* curve.

 c. a rightward shift in the *AS* curve.

 d. a leftward shift in the *AS* curve.

 e. only a movement along the *AD* and *AS* curves.

A reduction in the price level will cause

 a. a rightward shift in the *AD* curve.

 b. a leftward shift in the *AD* curve.

 c. a rightward shift in the *AS* curve.

 d. a leftward shift in the *AS* curve.

 e. only a movement along the *AD* and *AS* curves.

The U.S. economy has been slowly recovering following the financial crisis of 2007-2010. The unemployment rate in the US is currently around 8%, which is a significant improvement from the over 10% it had hit during the crisis. If the US government continues to implement expansionary fiscal or monetary policies

1. Wage pressures will likely appear causing the AD curve to shift to the left.
2. Wage pressures will likely appear causing the AD curve to shift to the right.
3. Wage pressures will likely appear causing the SRAS curve to shift to the right.
4. Wage pressures will likely appear causing the SRAS curve to shift to the left.
5. Wage pressures will likely appear causing unemployment to increase again.

According to the AS/AD model, an increase in taxes will cause

 a. only a movement along the *AD* and *AS* curves.

 b. a leftward shift in the *AD* curve.

 c. a rightward shift in the *AS* curve.

 d. a leftward shift in the *AS* curve.

 e. none of the above

A reduction in the money supply will cause

 a. a rightward shift in the *AD* curve.

 b. a leftward shift in the *AD* curve.

 c. a rightward shift in the *AS* curve.

 d. a leftward shift in the *AS* curve.

 e. only a movement along the *AD* and *AS* curves.

In the long run, we know that the

 a. *AD* curve is horizontal.

 b. *AD* curve is vertical.

 c. *AS* curve is vertical.

 d. *AS* curve is horizontal.

 e. *AS* curve is upward sloping.

When countries \_\_\_\_\_\_ in producing goods in which they have a(n) \_\_\_\_\_\_ advantage, they \_\_\_\_\_\_ their combined output and allocate their resources \_\_\_\_\_\_ efficiently.

 a. specialize; absolute; minimize; more

 b. do not specialize; comparative; maximize; less

 c. specialize; comparative; maximize; more

 d. do not specialize; absolute; minimize; more

 e. specialize; comparative; maximize; less

Many experts and observers object to Lebanon’s joining of the WTO. One of the reasons for that objection is that the WTO

 a. calls for lower protection of intellectual property rights which means Lebanese inventors may not get adequate protection if Lebanon becomes a member.

 b. calls for the reduction of tariffs, which might harm importers of cars and other heavy consumer goods.

 c. calls for the reduction of tariffs, which might harm Lebanese farmers who may no longer have adequate protection against imported agricultural goods.

 d. calls for increasing trade barriers in order to prevent countries from entering wars on trade issues.

 e. none of the above

An appreciation of the Lebanese Lira against the Euro

 a. would be beneficial for all Lebanese sectors, and therefore generally good for the economy.

 b. would likely harm exporting sectors.

 c. would decrease imports and increase exports.

 d. would make the Lebanese economy stronger.

 e. none of the above

When people in different countries buy from and sell to each other,

 a. an exchange of currencies must take place.

 b. the price of a product must be the same in each country.

 c. the countries must use a fixed exchange rate system.

 d. the countries must use a flexible exchange rate system.

 e. there must be an international court to settle any disputes in trade.

Speculators who anticipate \_\_\_\_\_\_ in the value of the dollar relative to the EURO will \_\_\_\_\_\_.

 a. an increase; demand EURO

 b. no change; demand dollars

 c. an increase; supply dollars

 d. a decline; supply EURO

 e. an increase; demand dollars

When the prices of a country's exports decrease in world markets,

 a. these exports will become less competitive, all else equal

 b. these exports will become more competitive, all else equal

 c. the country’s aggregate supply curve will shift to the left.

 d. the country's aggregate supply curve will shift to the right.

 e. None of the above

Which of the following statements about the determinants of imports is correct?

 a. If the prices of foreign goods rise relative to the prices of domestic goods, people will consume more foreign goods relative to domestic goods.

 b. Anything that decreases consumption spending is likely to increase the demand for imports.

 c. Anything that decreases investment spending is likely to increase the demand for imports.

 d. The demand for imports is affected by the exchange rate.

 e. None of the above

An excess supply of EUROs will cause

 a. the dollar to appreciate against the Euro.

 b. the Euro to appreciate against the dollar.

 c. the dollar to appreciate against the Euro.

 d. neither an appreciation nor a depreciation of the Euro against the dollar.

 e. the same change as an excess demand for Euros.

**Part II- Essays/Problems - New Material (2 questions; 40 points)**

\*\*\*Note to Class: You will get three of those questions on the final exam, out of which you must answer 2 (so you have a choice of 2 out of 3). Any substitution will automatically result in loss of credit (4 points). Careful preparation is recommended. Answers must be comprehensive and precise.

\*\*\*Another Note: As you prepare these questions, always remember, the more you write, the better. If you think it may be relevant WRITE IT!! Perfect scores will only be awarded to complete, mature answers.

1) This question has three parts: a) Define and graphically illustrate the “crowding-out” effect. b) What factor influences the extent to which crowding-out occurs? c) What type of policy may the government implement to reduce this effect? [Hint: The answer to part b is stated clearly in the notes for chapter 27 on BlackBoard under the section dealing with this topic. I didn’t go over it in class so it’s up to you to find the correct answer.]

2) Summarize the effects of contractionary monetary policy. Illustrate graphically those effects on the equilibrium levels of output and interest rate [Hint: There are short-run as well as long-run effects.]

3) Define the short-run aggregate supply curve and provide a summarized (but full) explanation of its shape.

4) An economy’s aggregate demand is the horizontal summation of the individual demand curves for all the products consumed in the economy. a) Do you agree with this statement? b) How is the aggregate demand curve derived? c) List and explain three important factors that may shift this curve.

5) The economies of the U.S. and most Western European nations have experiences recessions and increases in unemployment over the last several years (since the beginning of the financial crisis in the summer of 2008 following the collapse of property prices in the US and the failure of several major banks). This has prompted many of those governments to implement fiscal stimulus packages designed to ease up the crisis. a) Taking the US economy as an example, use aggregate supply and demand curves to describe and explain the effects of these policies on the equilibrium output and price level *on the short-run.* b) What might the effect of these policies be *on the long-run* if they are maintained even after the US economy returns to its natural level?

6) This question consists of a factual background, a hypothetical situation, and 2 questions. Make sure you read everything carefully before you begin.

Real Background: Both Lebanon and the island nation of Cyprus have been involved in recent attempts to locate and explore offshore natural gas fields. The two nations have demarcated their sea boundaries in preparation for exploration in the hopes of becoming natural gas exporters. It is well known that both nations also export chemicals and related products. In 2011, according to the Ministry of Economy and Trade data, Lebanon exported a total of $320 million worth of goods under that category. The figure for Cyprus was approximately $266 million for the same year (according to statistics published by that government).

Hypothetical Situation: Assume that the world works according to the Ricardian model of international trade, and that the two countries produce as follows:

 \*unit labor requirements for chemicals in Lebanon = 20

 \*unit labor requirements for natural gas in Lebanon = 100

 \*unit labor requirements for chemicals in Cyprus = 12

 \*unit labor requirements for natural gas in Cyprus = 72

Questions: a) State fully the Ricardian theory of comparative advantage and explain how it differs from the concept of absolute advantage that economists prior to Ricardo thought motivated trade. b) Using the numbers above, decide which country will have the comparative advantage in which product and explain the resulting trade outcome.

**Part III- Essays/Problems – Previous Material (2 questions; 30 points)**

\*\*\*Note to Class: The three questions below ***will appear*** on the exam, and you must then answer 2 of them. So, again, you will have a choice of 2 out of 3. Careful preparation is recommended. Answers must be comprehensive and precise.

1) Carefully explain how the approaches of Keynesian macroeconomists and classical economists differ with regard to the problem of unemployment. Make sure you mention how they differ in their views on what causes unemployment, the possible duration of unemployment, and what should be done about it. Use a simple illustration to explain your answer.

2) Below is a table showing some national accounting figures for Lebanesia. Quantities are given in millions of Lebanesian pounds. Use the data to calculate the terms required in a-e.

*You must* *show your formula/method and all your work*.

Net Private Domestic Investment 65

Exports of goods and services 55

Depreciation 15

Interest income 5

Consumption expenditure 150

Dividends 10

Government purchases of goods and services 100

Indirect taxes minus subsidies 20

Factor income payments to the rest

 of the world 18

Corporate profits 70

Changes in Inventories 20

Proprietor’s Income 40

Factor income receipts from the rest

 of the world 8

Imports of goods and services 60

Rent al income 35

a) Gross private domestic investment

b) Gross domestic product

c) National income

d) Salaries and wages

e) Gross fixed capital formation

3) 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.

**Part IV- Bonus (8 Points)**

Introductory Note: You may accumulate additional bonus points (up to 8) by preparing an answer to the following question and writing it during the final. On the exam the question will be clearly marked as a bonus question. The material for this part is contained in the notes to chapter 35 on BB.

**The question has two parts. Each is graded separately. You may answer the first part only or both.**

1) Briefly define national balance of payments records. Name and explain the three main accounts of the typical national BOP tables. To help with the explanation, you should list *at least* three items that may appear under each of the two primary accounts (6 pts).

2) The terms “BOP deficit” and “BOP surplus” are often mentioned in the media when discussing a country’s international economic situation. For example, during the 2009-2011 period, Lebanon was able to achieve a BOP surplus for three consecutive years. Briefly explain what that means (2 pts).