

Prof. Mark Pernecky  
Econ 261  
Spring 1992

Final Exam

Pledge: "I pledge my honor that during this examination I have neither given nor received assistance, and that I have seen no dishonest work."

Signed  
Name

On multiple choice, circle the letter of the best answer.

Assume all curves are "normally" sloped unless otherwise implied or expressed.

1. During the 1970s, the U.S. economy witnessed 2 major oil price shocks.

(a) Graphically depict and briefly describe the impact of an oil price shock on an aggregate supply/aggregate demand diagram below.

(b) Graphically depict and briefly describe the impact of an oil price shock on a short run Phillips Curve, below.

(c) The fiscal/monetary policy mix used by the Ford administration initially consisted of

"tight money" and "tight fiscal" policies. Graphically depict and briefly describe the impact of the policy mix of a reduction in the money supply and a reduction in government spending on the money market, the income/expenditure diagram, the IS/LM diagram, and the AS/AD diagram.

(d) President Ford then pushed through a tax cut on personal income. Graphically depict and

briefly describe the impact of this tax cut on the injections/leakages diagram, the IS/LM diagram, and the AS/AD diagram.

(e) Briefly describe how the Carter administration's response to the oil price shock compared

to the Ford administration's response in terms of types and timing of fiscal and monetary policy.

2. Using the IS/LM diagram and an AD curve, graphically depict how the aggregate demand curve (with price on the vertical axis) is generated under the assumption of: (a) a Keynes effect but no Pigou effect, (b) a Pigou effect but no Keynes effect.

3. Which of the following is a true statement concerning empirical trends in inflation?

- a. Before WWII, there tended to be inflation during expansions and deflation during recessions.
- b. Since WWII, there has tended to be inflation during expansions and deflation during recessions.
- c. Before WWII, there tended to be inflation during expansions and stagflation during recessions.
- d. Before WWII, there tended to be inflation during expansions and disinflation during recessions.

4. Keynesians support the intermediate targeting of the interest rate in order to ultimately target

- a. real income
- b. the price level
- c. the money supply
- d. all of the above

5. In what way does a Rational Expectations model differ from the Classical model?

6. Graphically depict for a production function the impact of an increase in tax rates on wealth, interest income, and corporate profits, according to Supply-siders.

7. What do post-Keynesians mean by "endogenous money"?

**DID YOU REMEMBER TO CONSIDER THE PLEDGE?**