

Prof. Mark Pernecky  
Econ. 261  
Spring 1991

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:

1. (a) Graphically depict what would occur in the U.S. market for foreign exchange if there were a reduction in the imports of Japanese cars to the U.S. (due to enhanced patriotism following the war). Assume the vertical axis measures the price of yen in terms of dollars.

(b) What impact will this reduction in imports have on the U.S. current account?

2. According to the time series evidence, increases in disposable income are associated with a

reduction in the APC in the short run, but are associated with a constant APC in the long run. How are these short and long run time series data explained by: (a) the life cycle hypothesis, and (b) the relative income hypothesis?

3. (a) Identify 1 reason against restricting program trading on the stock market.

(b) Identify 1 reason in favor of restricting program trading on the stock market.

4. (a) Explain how Robert Heilbroner compares the public debt and the private debt to reduce fears of a large public debt in "How I Learned to Love the Deficit."

(b) Explain how Benjamin Friedman compares the public debt and the private debt to enhance concern over large private debts in "Financial Fragility and the Policy Dilemma".

5. Briefly explain why an individual will hold some money according to Tobin's model of the

demand for money.

6. According to the article "Just What Happened to all that Money the S&Ls Lost? identify 2 groups that "gained".

7. Identify 3 empirical reasons cited in class for U.S. Economic Growth in this century.

8. Graphically depict the Laffer Curve below. Label a point on it were supply-siders believed the

U.S. economy was in 1980.

9. Identify 2 reasons why government regulation results in a slowdown in economic growth according to supply siders.

10. According to the article, "Well it may not be the 1930s, But...", what similarities in the policy mix existed recently and in the 1930s?

11. (a) Identify 1 reason in support of a politically independent Federal Reserve Board.

(b) Identify 1 reason for a Federal Reserve subject to the "democratic will"?

12. (a) Graphically depict below the money demand and supply diagram according to post-Keynesians.

(b) Explain why they would draw it this way.