

Economics 121 A

Final Examination

May 24, 2000

Seat/Row:

Spring Semester
Prof. Anthony D. Becker

Name:

Instructions:

You will have two hours to complete the exam.

You may use up to two sheets of notes and a calculator. You may not use your textbooks or any other materials.

Answer all questions on the paper provided as follows:

- ❖ Begin **each** question on a new sheet of paper.
- ❖ Write only on **one side** of each sheet of paper.
- ❖ Arrange your answers **in order** and staple them together with this exam as a cover sheet.
- ❖ Be sure to **sign** or check the pledge.

<i>Question</i>	<i>Possible Points</i>	<i>Score</i>
<i>1</i>	15	
<i>2</i>	15	
<i>3</i>	10	
<i>4</i>	10	
<i>5</i>	20	
<i>6</i>	15	
<i>7</i>	15	
<i>Total</i>	<i>100</i>	

Pledge:

I pledge my honor that on this exam I have neither given nor received assistance
and have seen no dishonest work.

Signed: _____

Check if you have left the pledge unsigned intentionally.

1. Explain the relationship between the money supply and economic activity (GDP, prices, unemployment, etc.) in the macro economy according to Keynesian theory. (15 points)
2. Explain the relationship between the money supply and economic activity (GDP, prices, unemployment, etc.) in the macro economy according to Classical theory. (15 points)
3. Suppose the money supply (M1) is \$1,000 billion and the money multiplier is 3.0.
 - (a) If the Federal Reserve engages in an open market purchase of \$200 million, what will the new level of the money supply be? (5 points)
 - (b) According to Keynesian theory, will this tend to raise or lower interest rates? (5 points)
4. If the Federal Reserve wishes to prevent inflation, why would it act to cause interest rates to rise? (10 points)
5. Using AED and ASP diagrams, show and explain the effects of the following events on the macroeconomy. (5 points each)
 - (a) Oil prices fall significantly.
 - (b) A new technology greatly increases the productivity of American industry.
 - (c) Fearing a recession, businesses greatly reduce their plans for new investment.
 - (d) The rest of the world experiences a large increase in economic output causing U.S. exports to rise sharply while, at the same time, U.S. consumers cut their purchases of foreign-made products.
6. Explain who wins and who loses when there is an unexpected increase in the price level such as occurred in the early 1970's. What effects might unexpected inflation have on the distribution of income in an economy? (15 points)
7. The table below shows national income and product account information for a hypothetical economy. All figures are in billions of current (nominal) dollars.

Year	Gross Domestic Product (GDP)	Consumption (C)	Investment (I)	Government Purchases (G)	Net Exports (X-IM)	Price Index for GDP (D)
1996	3,860		475	490	50	145
1997		2,925	480	495	100	148

- (a) Fill in the two missing values in the table. Show your work. (6 points)
- (b) Using the price index for GDP, determine the rate of inflation for this economy between 1996 and 1997. Show your work. (4 points)
- (c) Did this economy grow between 1996 and 1997 after accounting for inflation? Explain and provide numerical evidence to support your answer. (5 points)