Basic Macroeconomics
ECON 2021C
Final Exam

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Department: Engineering

Multiple Choice

(1) e	(2) d	(3) a	(4) c	(5) d	(6) d	(7) d	(8) d	(9) c	(10) c
(11) c	(12) b	(13) c	(14) e	(15) e	(16) d	(17) a	(18) a	(19) c	(20) b
(21) e	(22) c	(23) e	(24) d	(25) e	(26) c	(27) b	(28) e	(29) a	(30) c
(31) d	(32) c	(33) a	(34) c	(35) b	(36) a	(37) c	(38) a	(39) b	(40) b
(41) d	(42) c	(43) a	(44) c	(45) c	(46) e	(47) d	(48) d	(49) c	(50) c
(51) a	(52) e	(53) d	(54) a	(55) a	(56) e	(57) c	(58) b	(59) c	(60) e

Short Questions

(1)

Consumption: increase because decreased tax increases disposable income, part of which will be spent. ~~investment~~ .

Investment: increase. because lower interest rate means lower cost of borrowing (firms will increase investments)

Output: increase because consumption and investment are both components of output When ~~these~~ These increase, output will also increase

(2)

(a) $M^d = M^s$

$\theta \$ Y (0.28 - i) = 30$

$0.15 \cdot 1000 (0.28 - i) = 30$

$i = 0.08$

(b) $0.15 \cdot 1500 (0.28 - 0.08) = 45$

(3)

(1) Size of labor force = ~~em~~ employed + unemployed

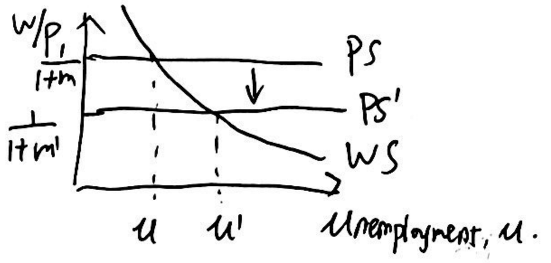
$30 + 10 = \cancel{60}\ 40$ million

(2) labor force participation rate $= \frac{40}{60} \times 100\% = \cancel{60}$ 66.67%

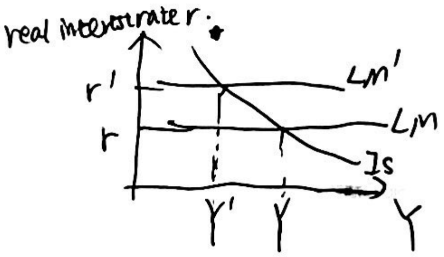
(3) unemployment rate $= \frac{\text{unemployment}}{\text{labor force}} = \frac{10}{40} = 25\%$

(4)

The increase in the price of oil will increase the unemployment rate u



It will also decrease the output in the short and medium run.



If the increase in the price of oil is permanent, the natural rate of unemployment is clearly unaffected. The economy possibly will have a recession.

(5)

Since the proportion of contracts that are indexed decreases, ~~changes in~~ ~~the unemployment and inflation~~ ~~will decrease~~ producers have to provide ~~more~~ higher wages, which will increse the input prices and decrease the return. Thus, the relationship between changes in the unemployment and ~~inpla~~ inflation would become less elastic. Thus. the philip's curve becomes steeper.

(6)

(a) $Y = 9 \times 6 = 54$

(b) The constant rate of return requires that if the quantities of capital and labor are doubled, output will also double.

The relationship holds for the given production function, hence it is charaterized by the constant rate of return