|  |
| --- |
| **Exercises from old exams to chapters in B & W.** |

|  |
| --- |
| **Chapter 1 and 2** |

**Exercise 1**

Answer the following statements as **true** or **false**, and explain why. Write no more than three sentences on each question.

1. Inflation measures the increase in the value of money.
2. Exogenous variables are determined outside the economic model.
3. “Norway should spend more of its oil revenue domestically” is an example of a positive (as opposed to normative) statement.

**Exercise 2**

1. Define exogenous variables and endogenous variables and explain the statement: “When using economic models, it is essential to be clear about what we want to explain and what we take as given.”
2. Explain the economic situation in a country if the real GDP growth rate is higher than the nominal GDP growth rate.
3. Use the circular flow diagram to explain the economic situation in a country if total consumption as a percentage share of GDP = 60 % and net export as a percentage share of GDP = 10 %.

**Exercise 3**

In the Macroeconomic accounts explain:

1. how gross domestic product (GDP) can be broken down into four main categories.
2. how the equation from a) is used in the short run models (Keynesian assumption).
3. how you can us the decomposition from a) and another decomposition of GDP to express net flows of private sector, government and the rest of the world.
4. the situation if private sector = 10 % of GDP and the country at the same time are running an external deficit of 5 % of GDP, by using the equation from c).

**Exercise 4**

1. Explain how nominal GDP (Gross Domestic Product) can change for two reasons.
2. How can you use GDP to compare the living standard across countries?

**Exercise 5**

Explain how inflation and unemployment are related to the business cycle.

**Exercise 6**

Explain the Key Accounting Identity (same notation as in the compulsory textbook): (S-I) + (T-G) = (X-Z).

Use the equation to explain the situation in a country if (S-I) = - 10 % of GDP and (T-G) = 5 %.

**Exercise 7**

Explain the difference between fiscal policy and monetary policy.

**Exercise 8**

Consider an economy where the GDP is equal to 1326, depreciation of real capital is 185, private consumption is 741, public consumption is 257, net investments in real capital is 124, and import is 593.

Then export will be?

**Exercise 9**

Which of the following statements are **false**:

1. If the government is borrowing by issuing public debt and the current account is balanced, then private sector must be saving.
2. If both government budget and current account are in balance, then the economy’s capital stock is ultimately financed by savings of resident households.
3. If both government and current account is in surplus, then private sector must be saving.
4. If private sector is a net borrower and the government budget is in balance, then the country must be running a current account deficit.

**Exercise 10**

**(i)**

Which ONE of the following variables is a stock variable?

**a.** GDP.

**b.** Net external debt.

**c.** The price level.

**d.** Interest rate.

**(ii)**

Consider an economy where GDP is equal to 1600, private consumption (C) is 850, gross investments in real capital (I) is 350, exports (X) is 400 and imports (Z) is 300.

Then public consumption (G) will be?

**(iii)**

Suppose during a year that nominal wages have increased by 3.5 %, that nominal interest rate has been stable at 5 % and that inflation has been 2 %.

Then the real wage has \_\_\_\_\_\_\_\_\_\_\_\_ by \_\_\_\_ % and real interest rate has been \_\_\_\_ %.