Introductory Macroeconomics (ECON10003_2020_SM1)

⚠ This is a preview of the draft version of the quiz.

Started: Jun 11 at 16:51

Quiz Instructions

FINAL EXAM

ECON10003 INTRODUCTORY MACROECONOMICS

Exam Duration: 3 hours and 30 minutes

Exam Conditions: Open Book

Instructions

Questions 1 to 20 are multiple choice questions each worth 2 marks for a total of 40 marks. Answer all questions online (i.e., within this Canvas quiz interface). Incorrect answers or no answer will receive a zero mark.

Questions 21 to 30 are true/false/uncertain questions each worth 2 marks for a total of 20 marks. Answer all questions online (i.e., within this Canvas quiz interface). ***Make sure to include a brief explanation of your reasoning***. For each question, 1 mark will be awarded for a correct true/false/uncertain response and 1 mark will be awarded for a correct explanation.

Note: Discussions > "Questions During Exam" can be used to ask Chris and/or Daeha questions about the exam (but not get help in answering the questions).

Academic Integrity Declaration

By commencing and/or submitting this assessment I agree that I have read and understood the **[University's policy on academic integrity.   (https://academicintegrity.unimelb.edu.au/)](https://academicintegrity.unimelb.edu.au/)**

I also agree that:

1. Unless paragraph 2 applies, the work I submit will be original and solely my own work (cheating);
2. I will not seek or receive any assistance from any other person (collusion) except where the work is for a designated collaborative task, in which case the individual contributions will be indicated; and,
3. I will not use any sources without proper acknowledgment or referencing (plagiarism).
4. Where the work I submit is a computer program or code, I will ensure that:
   a. any code I have copied is clearly noted by identifying the source of that code at the start of the program or in a header file or, that comments inline identify the start and end of the copied code; and
   b. any modifications to code sourced from elsewhere will be commented upon to show the nature of the modification.

This exam begins at 9.00 AM Australian Eastern Standard Time (AEST) on Monday 15/06/2020 in Canvas (lms.unimelb.edu.au). The exam must be completed by 12.30 PM AEST on Monday 15/06/2020. This exam has 30 minutes of reading time, and 180 minutes of writing time.

Question 1	2 pts

A car manufacturing company produces a $20,000 car using $16,000 worth of components and $4,000 worth of labour. The contribution to GDP is:

- ○ $40,000
- ○ $16,000
- ○ $4,000
- ○ $36,000

Question 2	2 pts

If the quantity of output produced remains unchanged between 2018 and 2028 but the price of all goods falls by 10% over this period, what can we say about the period from 2018 to 2028?

- ○ The percentage change in real GDP will be larger than the percentage change in nominal GDP
- ○ We cannot compare changes in nominal GDP to changes in real GDP without further information
- ○ The percentage change in nominal GDP will be larger than the percentage change in real GDP
- ○ The percentage change in nominal GDP will equal the percentage change in real GDP

Question 3	2 pts

If inflation is unexpectedly high, then we can expect that lenders will be _____ off and borrowers will be _____ off, as a result.

- ○ better, better
- ○ worse, worse
- ○ better, worse
- ○ worse, better

Question 4	2 pts

Consider a simple model where workers can be either employed or unemployed. If the job separation rate is 2% per month and the job finding rate is 53% per month, which of the following is FALSE?

○ There are more workers losing their jobs than there are unemployed workers finding a job

○ None of the other options

○ The steady state unemployment rate is 3.6%

○ The steady state employment rate is 96.4%

Question 5   2 pts

Consider a simple Keynesian model without government spending or taxation. Suppose autonomous consumption is 500 and autonomous investment is 300 and the equilibrium level of output is 2400. Then the marginal propensity to consume is:

○ 2/3

○ Uncertain, not enough information

○ 3/5

○ 3

Question 6   2 pts

Suppose the growth rate of nominal GDP is 10% per year and the growth rate of real GDP is 2% per year. According to the quantity theory of money, the money growth rate is most likely to be:

○ 2% per year

○ 12% per year

○ 10% per year

○ 8% per year

Question 7   2 pts

Suppose the existing stock of government debt is $600 billion. The interest rate is 10%. Government purchases are $50 billion, and government transfers another $40 billion. Tax revenue is $100 billion. Which of the following is true?

○ The budget is balanced

○ There is a budget deficit of $50 billion

○ There is a budget deficit of $60 billion

○ There is a budget surplus of $10 billion

Question 8   **2 pts**

In a(n) _____ outright open market operation, the Reserve Bank _____ in the overnight interbank market so that the money supply _____.

○ expansionary, buys bonds, increases

○ contractionary, buys bonds, decreases

○ contractionary, sells bonds, increases

○ expansionary, sells bonds, increases

Question 9   **2 pts**

In the AD-AS model, a temporary shock to the aggregate supply function that leads to an increase in inflation, with other things equal, will have what effect?

○ A positive effect on output in the short run and long run

○ A negative effect on output in the short run and long run

○ A negative effect on output in the short run but no long-run impact on inflation or output

○ A positive effect on output in the short run but no long-run impact on inflation or output

---

Question 10   **2 pts**

Consider an AD-AS model with AD curve $Y - Y^* = -\alpha\gamma\,(\pi - \pi^*) + \varepsilon_D$

and AS curve $\pi = \pi^e + \varphi\beta(Y - Y^*) + \varepsilon_S$ with parameter values $\alpha = 0.5$, $\gamma = 1$, $\varphi = 1$, $\beta = 0.5$,

and with inflation target $\pi^* = 0.02$ and potential output normalised to $Y^* = 1$.

Starting from a long-run equilibrium with $\pi^e = \pi^*$ suppose there is a temporary demand shock $\varepsilon_D = -0.05$. Which of the following is TRUE?

○ In the short run, output is 5% below trend

○ In the short run, output is 4% below trend

○ In the short run, inflation is 1%

○ In the long run, output is 5% below trend

Question 11   2 pts

Use the following information about the closed economy to answer the question: Household saving is $300, Business saving is $700, Government purchases are $1000, Government transfers and interest payments are $500, Government tax collections are $1500, and GDP is $5000. What is national saving?

○ $800

○ $500

○ $1000

○ $0

Question 12   2 pts

Suppose there are two primary factors of production, labour (L) and capital (K), and there are no secondary factors of production. The production function for this economy is simply $Y = cK^{\alpha}L^{1-\alpha}$, where c is a constant and α= 0.5. Which of the following is true?

○ This economy exhibits constant marginal product of labour

○ This economy exhibits decreasing returns to scale

○ This economy exhibits constant marginal product of capital

○ This economy exhibits diminishing marginal product of labour

Question 13   2 pts

Consider the country of Solow, which is described by the Solow–Swan growth model with constant total factor productivity. Let the saving rate θ = 0.75. Per capita output (y) is equal to 100 and the per capita capital stock (k) is 1000. For Solow to be in steady state:

○ the depreciation rate is 0.025 and the population growth rate is 0.05

○ the depreciation rate is 0.25 and the population growth rate is 0.5

○ the sum of the depreciation rate and the population growth rate must be less than 0.075

○ the depreciation rate and population growth rate must sum to 0.75

Question 14   2 pts

Consider the country of Solow, which is described by the Solow–Swan model. Let the saving rate θ = 0.8; let the population growth rate *n* = 0.05; let the rate of depreciation *d* = 0.05. If per capita income *y* = 100 and the per capita capital stock *k* = 1000, which of the following is true?

○ Replacement investment is 100, saving is 80 and k will increase towards the steady state per capita capital stock

○ Replacement investment is 100, saving is 60 and k will decrease towards the steady state per capita capital stock

○ Replacement investment is 100, saving is 80 and k will decrease towards the steady state per capita capital stock

○ Replacement investment is 100, saving is 80 and k is at the steady state per capita capital stock

Question 15   2 pts

An economy has two workers, Ben and Curtis. Every day they work, Ben can produce 24 shoes or 16 pants, and Curtis can produce 32 shoes or 24 pants. Who has the comparative advantage for shoes and pants?

○ Ben for shoes; Curtis for pants

○ Curtis for shoes; Ben for pants

○ Curtis for shoes; Curtis for pants

○ Ben for shoes; Ben for pants

Question 16   2 pts

An economy has two workers, Paula and Ricardo. Every day they work, Paula can produce 8 computers or 16 shirts, and Ricardo can produce 4 computers or 12 shirts. Suppose that the market price of computers is 4 shirts per computer. What goods do Paula and Ricardo produce?

○ computers by Paula; computers by Ricardo

○ shirts by Paula; shirts by Ricardo

○ shirts by Ricardo; computers by Paula

○ shirts by Paula; computers by Ricardo

Question 17   2 pts

The demand for cameras in a certain country is given by $D = 8000 - 30P$, where P is the price of a camera. Supply by domestic camera producers is $S = 4000 + 10P$. If this economy opens to trade while the world price of a camera is $50, and the government imposes a tariff of $30 per camera, what will be the quantity of cameras that this country imports or exports?

- ○ 2000 exports

- ○ 800 imports

- ○ 800 exports

- ○ 2000 imports

Question 18   2 pts

Suppose Australia has an annual 6% inflation rate, while the annual growth rate of the nominal exchange rate, expressed in euros per Australian dollar, is 4%. If purchasing power parity holds, what is the annual inflation rate in the Eurozone?

- ○ 4%

- ○ 10%

- ○ 0%

- ○ 6%

Question 19   2 pts

The demand for Australian dollars in the foreign exchange market equals $14000 - 3000e$ and the supply of Australian dollars in the foreign exchange market equals $2000 + 2000e$, where e is the nominal exchange rate expressed in euros per Australian dollar. If the Australian dollar is fixed at 2 euros per Australian dollar, then to maintain this fixed rate, what is the required change in the Reserve Bank of Australia's holdings of euros?

- ○ increase by 4000 euros

- ○ decrease by 2000 euros

- ○ decrease by 4000 euros

- ○ increase by 2000 euros

Question 20

2 pts

Which of the following is a debit item in the Australian current account?

○ An Australian company pays for consulting services from an overseas firm

○ The sale of wool to Italy

○ The tuition paid by overseas students at an Australian university

○ An Australian consulting company receives payment from an overseas firm

Question 21

2 pts

If part-time employment is increasing, full-time employment is decreasing.

Answer true, false, or uncertain. Please briefly explain your answer.

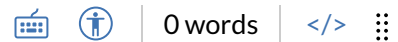12pt ∨   Paragraph ∨   ⋮

0 words   </>   ⋮

Question 22

2 pts

Consider a standard Keynesian model but with two types of consumers, Type A who have low marginal propensities to consume and Type B who have high marginal propensities to consume.

An economy with relatively more Type A consumers is more vulnerable to a negative shock to investment demand.

Answer true, false, or uncertain. Please briefly explain your answer.

12pt ∨   Paragraph ∨   ⋮

O words   </>   ⠿

Question 23   2 pts

Consider a Keynesian model but where investment (just like consumption) is increasing in aggregate income, e.g., because investment depends on business cash flow.

Now that investment depends on aggregate income, a fiscal stimulus has more effect on equilibrium output.

Answer true, false, or uncertain. Please briefly explain your answer.

12pt ⌄   Paragraph ⌄   ⋮

O words   </>   ⠿

Question 24   2 pts

Consider a standard AD-AS model.

An increase in the inflation target is associated with a short-run decrease in unemployment but not a long-run decrease in unemployment.

Answer true, false, or uncertain. Please briefly explain your answer.

12pt ⌄   Paragraph ⌄   ⋮

⌨ ⓘ | 0 words | </> ⋮

Question 25   2 pts

Consider a standard AD-AS model.

If the SRAS curve is steep, a temporary tax cut leads to a relatively small increase in inflation and relatively large decrease in unemployment.

Answer true, false, or uncertain. Please briefly explain your answer.

12pt ⌄   Paragraph ⌄   ⋮

⌨ ⓘ | 0 words | </> ⋮

Question 26   2 pts

Consider a closed economy. The introduction of new technology and an increase in the precautionary saving motives in the private sector will decrease real interest rates and the equilibrium quantity of saving supplied and demanded in this economy.

Answer true, false, or uncertain. Please briefly explain your answer.

12pt ⌄   Paragraph ⌄   ⋮

⌨ ⓘ | 0 words | </> ⋮

Question 27   2 pts

Consider a country that is initially in steady state. Suppose the saving rate increases. Moreover, the population growth rate increases by 1% but the capital depreciation rate falls by 1%. According to the Solow–Swan model, the per capita capital stock increases, and the country moves to a new, higher steady state level of per capita income.

Answer true, false, or uncertain. Please briefly explain your answer.

12pt ∨   Paragraph ∨   ⋮

| |
| |

🖮 ⓘ │ 0 words │ </> ⋮

Question 28   2 pts

There are two countries in the world, A and B, which trade only two goods, shirts and pants. Under autarky, shirts are cheaper in Country A than in Country B, whereas the pants are more expensive in Country A. Suppose that the world price of shirts lies above the two countries' autarky prices. Both Country A and Country B will only produce shirts when the opportunity to trade exists.

Answer true, false, or uncertain. Please briefly explain your answer.

12pt ∨   Paragraph ∨   ⋮

| |
| |

🖮 ⓘ │ 0 words │ </> ⋮

Question 29   2 pts

Consider a country that adopts the fixed exchange rate system and uses monetary policy to sustain the fixed exchange rate. To counter a speculative attack on its currency, the central bank must tighten monetary policy.

Answer true, false, or uncertain. Please briefly explain your answer.

12pt ﹀	Paragraph ﹀	⋮

⌨ ⓘ | 0 words | </> ⠿

Question 30   2 pts

In an open economy, it is impossible to have national saving equal to domestic investment.

Answer true, false, or uncertain. Please briefly explain your answer.

12pt ﹀	Paragraph ﹀	⋮

⌨ ⓘ | 0 words | </> ⠿

Saved at 16:52   Submit Quiz