2 questions Score 20 marks in the exam and you are free to go.

OLABISI ONABANJO UNIVERSITY AGO IWOYE
FACULTY OF Management AND SOCIAL SCIENCES
DEPARTMENT OF ECONOMICS
RAIN MID-SEMESTER EXAMINATION, 2016/2017 SESSION

COURSE CODE/ TITLE: ECO 302/ INTERMEDIATE MACROECONOMICS **TIME: 30 minutes**

Instruction: Answer **True, False or Ambiguous** and support your choice with reason(s)

False i. A policy mix of a contractionary fiscal policy and a contractionary monetary policy will, unambiguously, result in a higher interest rate.

ii. In a simple Keynesian model (with lump-sum taxes and a MPC of 0.8), if the government increases spending by N400 billion and increase taxes by N400 billion, output will increase by N400 billion. True

iii. In a simple Keynesian model (with lump-sum taxes and a MPC of 0.8), a tax cut of N20 billion will have less of an impact on GDP than an increase in government spending of N10 billion. False

iv. If people think that interest rates are above normal levels, they will want to hold bonds in anticipation of a rise in bond prices. True As falling of interest rate the price of bonds will high.

v. If everyone increases their marginal propensity to save, the Keynesian model predicts that total saving will not increase. True

vi. If an economy shifts from lump-sum taxes to income taxes, an increase in government spending will result in a greater increase in GDP. False

vii. Fiscal policy has a longer implementation lag than monetary policy, but a shorter response lag. True

viii. Firms react to unplanned inventory investment by reducing output. True

ix. An increase in the money supply will shift AD curve upwards and to the right. True

x. True An increase in the money supply will lead to a downward shift and to the right of the money-market (*LM*) curve.

xi. Investors will probably wish to hold bonds when interest rates are low in the hope of selling them at higher prices when interest rates increase. False When interest rate increase price of bond falls.

xii. More frequent switching from bonds to money will result in a higher opportunity cost of holding money and lower money management costs. False

xiii. Only the goods market is in equilibrium at any point along the AD curve; the money market may or may not be in equilibrium. False Along the AD curve both the goods market and money market are in equilibrium

xiv. When the difference between government spending and tax revenue is positive, the government budget is in surplus. ~~False~~ True Balance budget is One

xv. The time it takes policy makers to realize that the economy is going into a recession is known as the "recognition lag". True

xvi. The tendency for increases in government spending to cause decreases in private saving is known as the crowding out effect. False

xvii. The marginal propensity to consume is the change in consumption expenditure divided by the percentage change in income. False $\frac{\Delta C}{\Delta Y}$

xviii. The larger the MPC, the smaller the Keynesian government spending multiplier. False

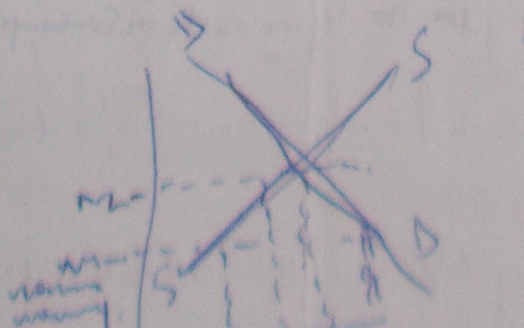
xix. The deficit will increase during recessions and decrease during expansions. True

xx. The Central Bank has more control over long-term interest rates than short-term interest rates. False

AD = C+I

household — Consumption

Business firms — Investment



LM and IS

Capital — Invest

+ = Deficit