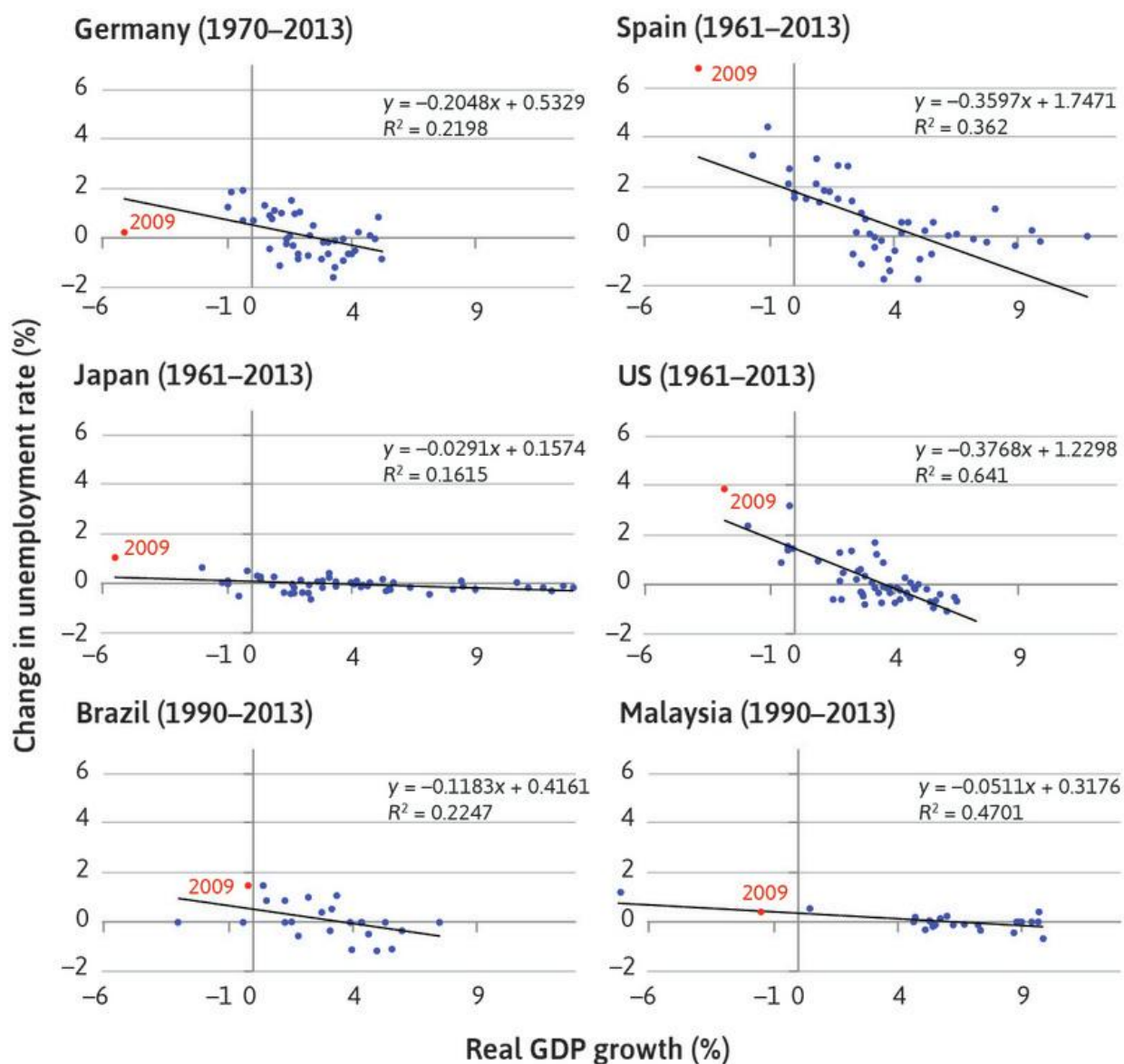


ECON 2002.01 FINAL EXAM

Hui-Jun Chen

- ① (OUP-U13-Q16) The figure shows that total investment spending can be volatile because the interaction of individual firms' decisions can lead to vicious (low profit) or virtuous (high profit) circles. Which of the following might encourage all firms in the economy to behave in such a way that they all increase their investment spending together?



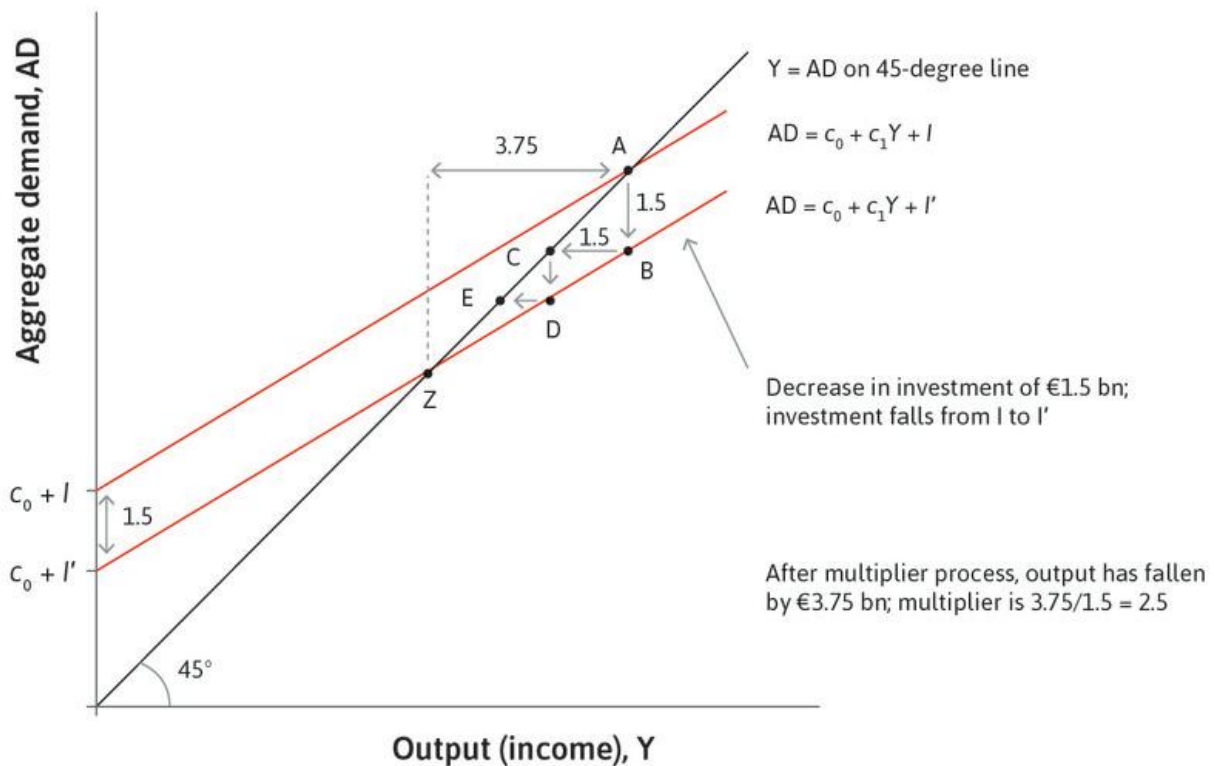
-
- (A) A fall in the exchange rate (the domestic currency becomes cheaper for foreign buyers).
 - (B) A major technological breakthrough – say in batteries for electric cars.
 - (C) The use by government of fiscal policy to increase aggregate demand.
 - (D) Calls from government for firms to increase investment.

② (OUP-U13-Q9) The data for Spain suggests that Okun's Law can be written as $y = -0.3147x + 1.2821$, where y is the change in unemployment rate and x is the GDP growth rate. What is the predicted change in unemployment if GDP grows by 2 per cent? _____

- (A) Unemployment increases by 1.9115 percentage points.
- (B) Unemployment increases by 1.2758 percentage points.
- (C) Unemployment increases by 0.6527 percentage points.
- (D) Unemployment increases by 1.2192 percentage points.

- ③ (OUP-U14-Q12) In an economy where the MPC is 0.7, the proportional tax rate is 0.25 and the marginal propensity to import is 0.2, the multiplier will be: *Hint:* There's both MPC, proportional tax rate and MPI needs to be considered _____
- (A) 0.675
 - (B) 2.1
 - (C) 1.48
 - (D) 2.35

- ④ (OUP-U14-Q10) In the figure shown, a fall in output is caused by a reduction in investment. Which of the following would help restore output to its original level?



- (A) A reduction in autonomous consumption.
 (B) An increase in target wealth.
 (C) An increase in actual wealth.
 (D) A tightening of credit conditions.

- ⑤ (OUP-U15-Q22) Assume that the central bank has an inflation target of 2% per year but inflation is currently running at 4%. The nominal policy (interest) rate is currently 5%. The central bank needs to create a negative bargaining gap and estimates that the real policy rate required to achieve this is 3%. Consequently it needs to set the nominal policy rate at: _____
- (A) 6%.
 - (B) 7%.
 - (C) 8%.
 - (D) 4%.

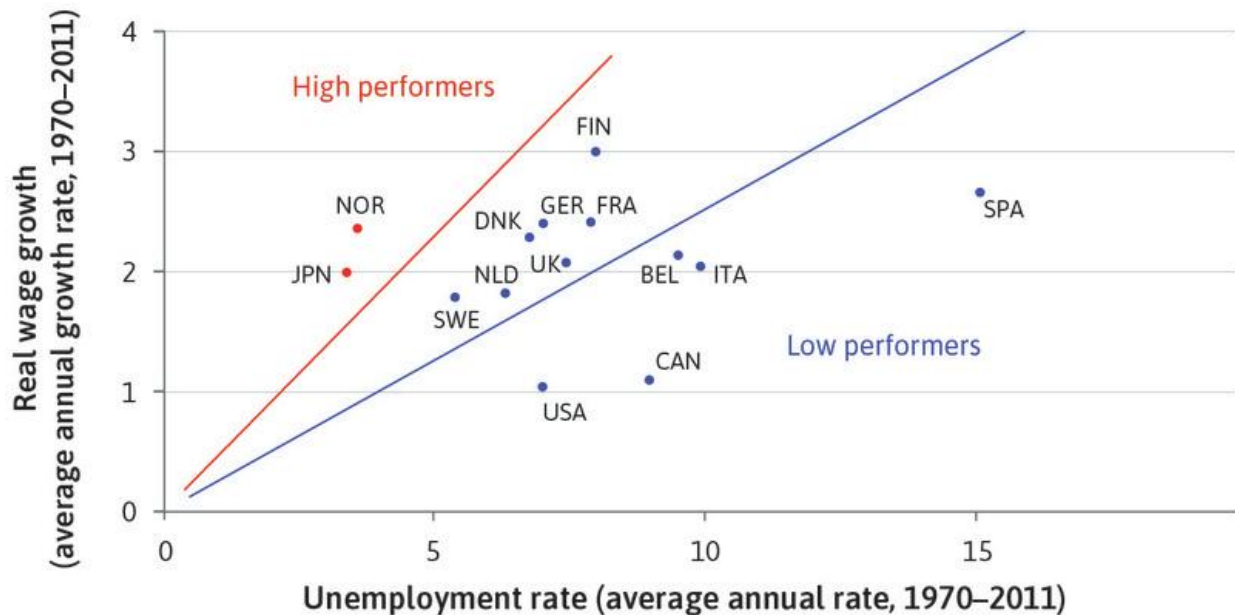
⑥ (OUP-U15-Q20) Assume that a bargaining gap remains constant at 1 per cent. The rate of inflation in future years will: _____

- (A) Remain constant at 1 per cent per year.
- (B) Remain unchanged.
- (C) Accelerate by 1 per cent per year.
- (D) Settle at 1 per cent.

⑦ (OUP-U16-Q6) Last year, an economy had 1m registered unemployed and a labour force of 20m. Official statistics forecast a level of unemployment of 0.8m by the year's end while the size of the labour force remains unchanged. If this happens then the unemployment rate will have: _____

- (A) Risen by 0.2m.
- (B) Fallen from 5 per cent to 4 per cent.
- (C) Fallen by 0.2m.
- (D) Fallen by 0.2 per cent.

- ⑧ (OUP-U16-Q20) The figure shows long-run unemployment and real wage growth across the OECD. The rays drawn from the origin are described as 'indifference curves'. This is because:



- (A) They show that people are indifferent to levels of unemployment.
- (B) They show a trade-off between unemployment and real wage growth.
- (C) They show that real wage growth and low unemployment go together.
- (D) Each ray shows the combinations of unemployment and real wage growth that correspond to the same 'utility'.

- ⑨ (OUP-U17-Q11) You are given the following information about the short-term nominal interest rate and the rate of inflation over a period of 8 years. In which year was the real rate of interest at its maximum and in which years might we regard monetary policy as having been expansionary?

	Interest (%)	Inflation (%)		Interest (%)	Inflation (%)
Y1	7	0	Y5	3	-5
Y2	6	-1	Y6	2	-2
Y3	5	-5	Y7	2	1
Y4	4	-7	Y8	2	3

-
- (A) The real rate is at its maximum in Y4, but monetary policy is expansionary in all years since the rate of interest is falling.
- (B) Y6 is the earliest point at which we can describe monetary policy as expansionary.
- (C) It only becomes negative in Y8, which is the earliest that we can describe policy as expansionary.
- (D) The real rate is at its maximum in Y1 (=7%) and monetary policy becomes expansionary in Y3 when the real rate falls to zero (= 5 - 5).

⑩ (OUP-U17-Q22) The leverage ratio is defined as total assets/equity. Assume that a household's sole asset is a house worth \$190,000, which it has bought with a mortgage loan of \$180,000. What is the value of the leverage ratio, and what happens to the ratio if the house value falls to \$185,000? _____

- (A) 19; 37.
- (B) 19; 18.5.
- (C) 0.053; 0.027.
- (D) 19; 13.

⑪ (OUP-U13-Q21) The Consumer Price Index (CPI): _____

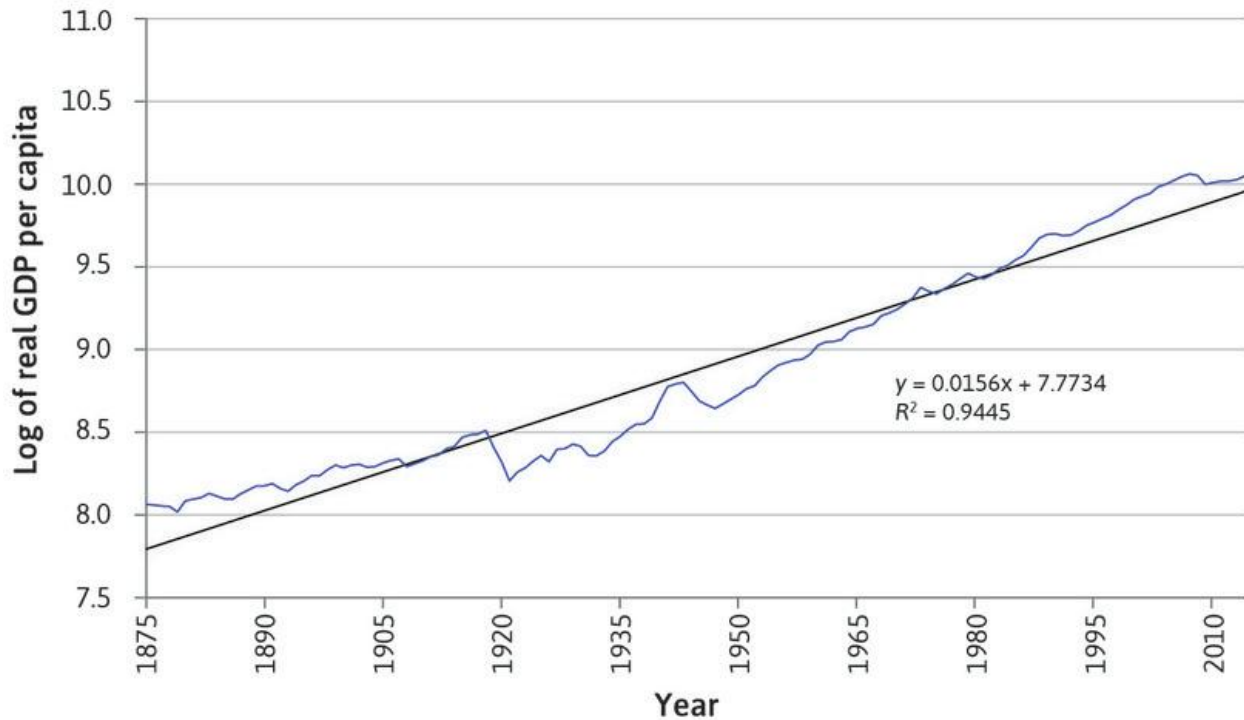
- (A) Records the price of all goods and services in the economy.
- (B) Records the price of all goods produced in the domestic economy, including exports.
- (C) Measures the general level of prices that consumers pay for goods and services.
- (D) Measures the rate of inflation.

⑫ (OUP-U13-Q22) The GDP deflator differs from the CPI in the following way:

- (A) It includes the price of exports.
- (B) It only records the prices of goods while CPI includes the price of services.
- (C) It includes the prices of exports but excludes the prices of imports.
- (D) The GDP deflator gives higher measures of inflation than the CPI.

- ⑬ (OUP-U13-Q24) When a country's GDP is being measured by the output method, the total figure comes to \$500bn. When measured by expenditure, we have the following components: Households' spending on consumption = \$300bn, Firms' spending on capital goods = \$50bn, Government spending on services = \$80bn, Government spending on capital goods = \$50bn, Government transfers (social security etc) = \$10bn, Exports = \$10bn and Imports = \$20bn. In the circumstances, how can we say the output and expenditure methods of calculating GDP are equivalent? _____
- (A) There is no problem. The expenditures sum to \$500bn which matches the output measure.
 - (B) Both of these methods should give the same answer when calculated using real-world data.
 - (C) Adding to stocks of unsold goods is treated as a form of investment.
 - (D) Both methods of calculating GDP should always give the same answer in any circumstances.

- ⑭ (ECO-U13-Q1) The following is the graph of the natural log of UK real GDP per capita between 1875 and 2014: Based on this information, which of the following statements is correct?



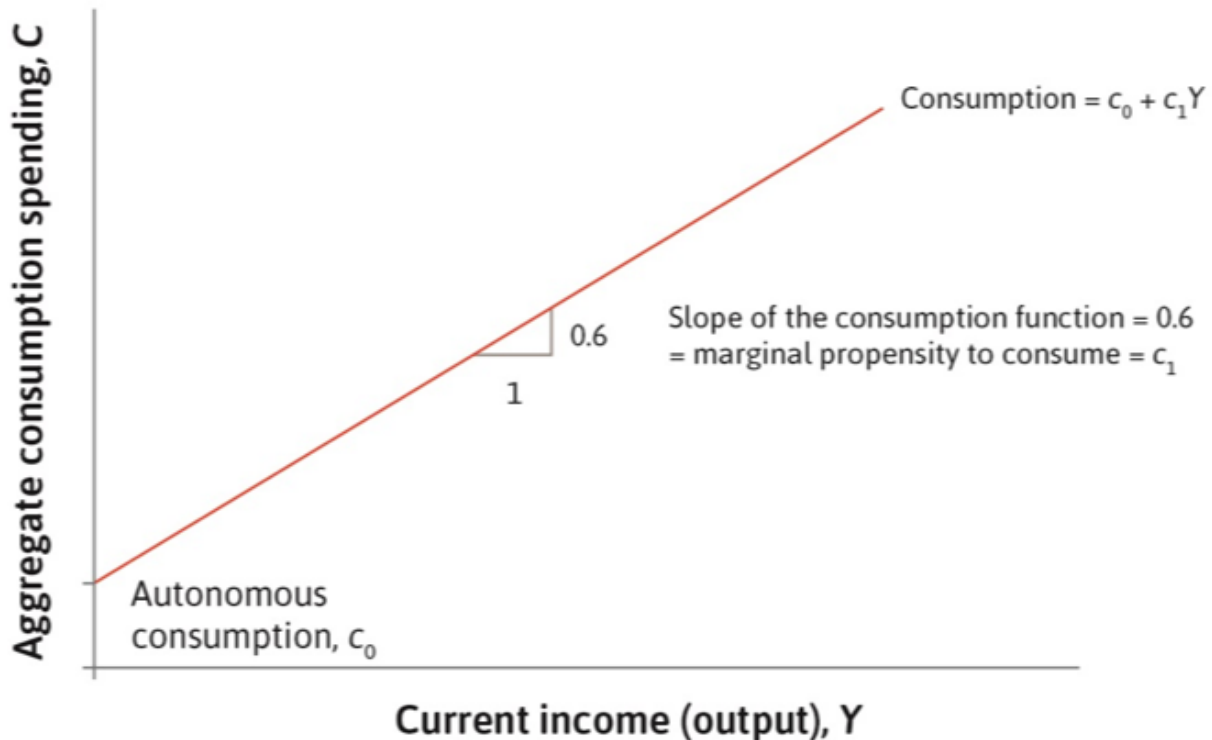
- (A) The graph shows that real GDP per capita in the UK in 1955 was about £8,000.
- (B) The slope of the best-fit straight line is the average annual growth rate.
- (C) The graph shows that the average growth rate was lower in the decades after 1921 than in the decades before 1918.
- (D) The graph of real GDP per capita plotted using a ratio scale would look very different to the graph above.

- ⑮ (OUP-U14-Q4) Assume that the level of consumption in an economy is given by the expression $1000 + 0.7Y$, when $Y = 50,000$, consumption will be: _____
- (A) 35,000
 - (B) 36,000
 - (C) 166,666
 - (D) 72,428

①⑥ (OUP-U14-Q19) The ‘paradox of thrift’ is an example of: _____

- (A) A contradiction in terms.
- (B) The fallacy of composition.
- (C) Positive feedback.
- (D) Negative feedback.

- ①7 (TEA-U14-Q1) The diagram depicts a consumption function of an economy, where C is the aggregate consumption spending, Y is the current income of the economy, and c_0 is the fixed (or autonomous) consumption such that $c_0 > 0$. Assume that households that are not credit-constrained would completely smooth their consumption. Which of the following statements is correct?



- (A) If all households were not credit-constrained, and all income changes were perceived to be temporary, then the aggregate consumption line would be horizontal.
- (B) During a credit crunch when the banks become less willing to lend, the aggregate consumption line would become flatter.
- (C) If a higher proportion of households have 'weakness of will', then the aggregate consumption line would be flatter.
- (D) If the current income falls to zero, there will be zero consumption.

- ⑱ (TEA-U14-Q2) Assuming that there is no government spending or trade, an economy's aggregate demand is given by its domestic consumption (C) and investment (I), $AD = C + I = c_0 + c_1Y + I$. In the economy's goods market equilibrium this equals its output: $AD = Y$. Solving for Y this yields: $Y = [1/(1 - c_1)](c_0 + I)$. Given this equation, which of the following statements is correct? _____
- (A) The multiplier is given by $1 - c_1$.
 - (B) The boost in the economy's output is the same, regardless of whether the aggregate demand shock comes from an increase in investment I or in autonomous consumption c_0 .
 - (C) The larger the marginal propensity to consume (c_1), the smaller the multiplier.
 - (D) If $c_1 = 1/3$, then a £1 million increase in investment would result in a £2 million increase in output, *ceteris paribus*.

①⑨ (OUP-U14-Q21) Insert the correct combination of terms in the following sentence: ‘The budget deficit refers to...., while government debt refers to....’

- (A) Households’ borrowing; government borrowing.
- (B) Firms’ borrowing; government borrowing.
- (C) The government’s current borrowing requirement; the accumulation of past government borrowing.
- (D) Consumer credit; the national debt.

- ②⑩ (OUP-U15-Q4) At the end of 2015 the UK consumer price index was 258; at the end of 2016 it was 267. According to this information, the annual rate of inflation during 2016 was approximately: _____
- (A) 3.3 percent.
 - (B) 9 percent.
 - (C) 2.67 percent.
 - (D) 0.33 percent.

- ②① (OUP-U15-Q6) An overseas bank announces that it is introducing a new type of savings account that pays a 3% fixed rate of interest for deposits of a one year duration. This 3% is: _____
- (A) A real rate of interest.
 - (B) A post-tax rate of interest.
 - (C) A nominal rate of interest.
 - (D) A long-term rate of interest.

22 (OUP-U15-Q14) Imagine that at the end of 2014 your monthly income in money terms was £2000 per month while the index of retail prices was 100. At the end of 2015, your monthly income was £2100 while the index of retail prices was 110. During 2015, your real income had: _____

- (A) Increased by £100.
- (B) Fallen by 10 percent.
- (C) Increased by 5 percent.
- (D) Fallen by 5 percent.

②③ (OUP-U15-Q24) In a severe recession, with falling prices, the economy may need a negative real interest rate in order to give sufficient stimulus to aggregate demand. What particular problem for conventional monetary policy do negative real interest rates pose? _____

- (A) A negative real rate of interest redistributes income from savers to borrowers.
- (B) A negative real rate of interest may cause an asset price boom.
- (C) A negative real rate of interest may encourage reckless borrowing.
- (D) The policy rate needs to be more negative than the rate of deflation but nominal rates cannot go below zero.

- ②④ (TEA-U15-Q2) Consider a scenario where the Bank of England views the UK economy to be overheating and is attempting to slow the economy down using monetary policy. Which of the following statements regarding the effects of an interest rate rise is correct? _____
- (A) It leads to higher bond prices, which results in higher demand for UK bonds.
 - (B) It leads to higher demand for GBP, which results in an appreciation of the GBP.
 - (C) It leads to the UK exports becoming cheaper and imports becoming more expensive.
 - (D) It has opposing effects on the UK's aggregate demand (AD): it discourages investment, which lowers AD, but results in cheaper imports, which boosts AD.

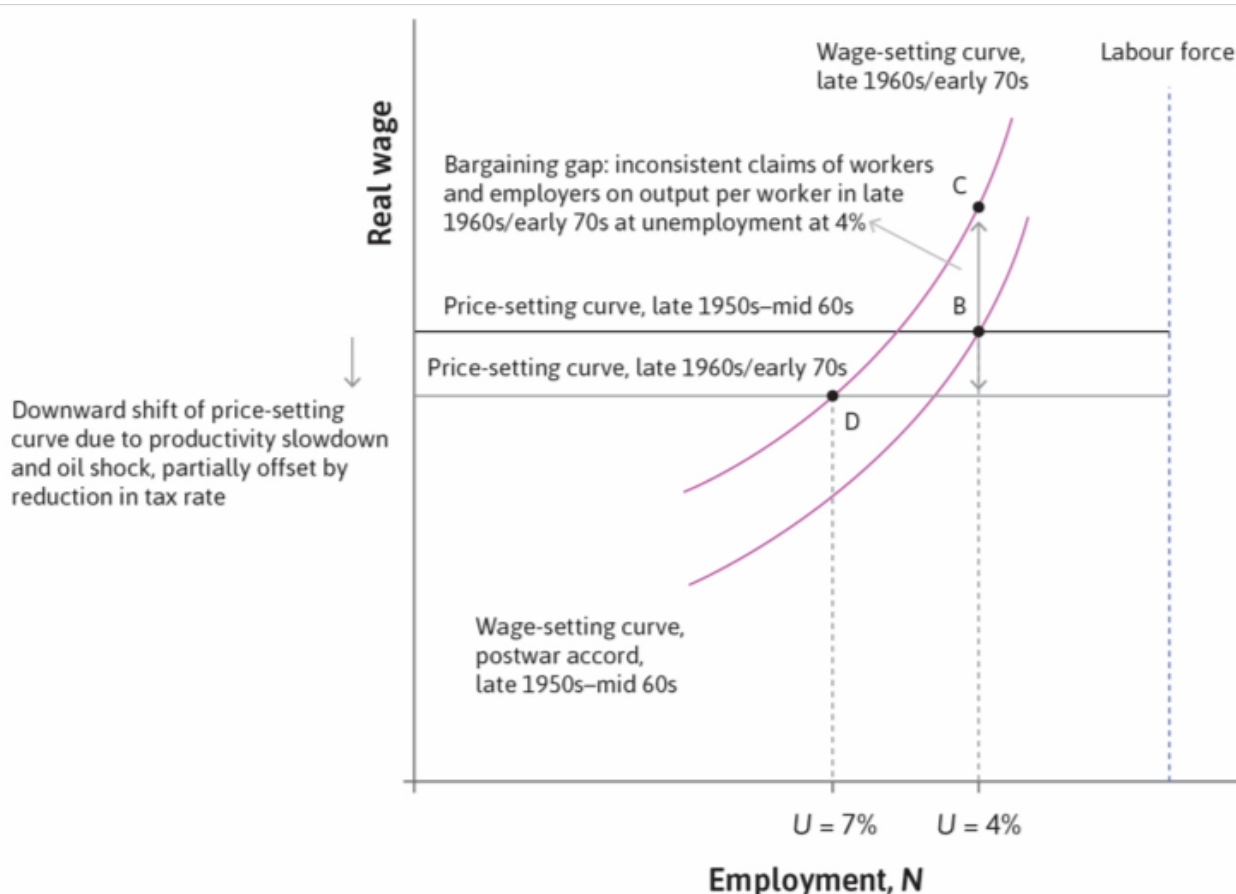
- ②⑤ (OUP-U16-Q17) We expect the diffusion of new technology to raise both the real wage and the level of employment. But this takes time, during which some people may lose out. These include: _____
- (A) Older, less-adaptable, workers.
 - (B) Firms with far-sighted management.
 - (C) Young, mobile, workers.
 - (D) Workers in essential services.

- 26 (OUP-U16-Q12) Suppose that the productivity of labour (λ) is \$35,000 per year and the equilibrium mark up (μ) is 0.25. The long-run price-setting curve will be at a real wage of: _____
- (A) \$8,750.00
 - (B) \$26,250.00
 - (C) \$46,666.00
 - (D) \$61,250.00

②⑦ (OUP-U16-Q18) Which of the following might help to minimise the costs of adapting to new technology? _____

- (A) Strict regulation of new start-ups.
- (B) Government re-training schemes.
- (C) A poorly developed financial sector.
- (D) A shortage of skilled labour.

- 28 (TEA-U17-Q3) The diagram describes the general movements in employment, profits, and wages in the 1950s to 1970s, using the labour market model. In addition, note that the postwar accord collapsed in the US in the 1960s, while it survived in Sweden. Which of the following statements regarding this period is correct?

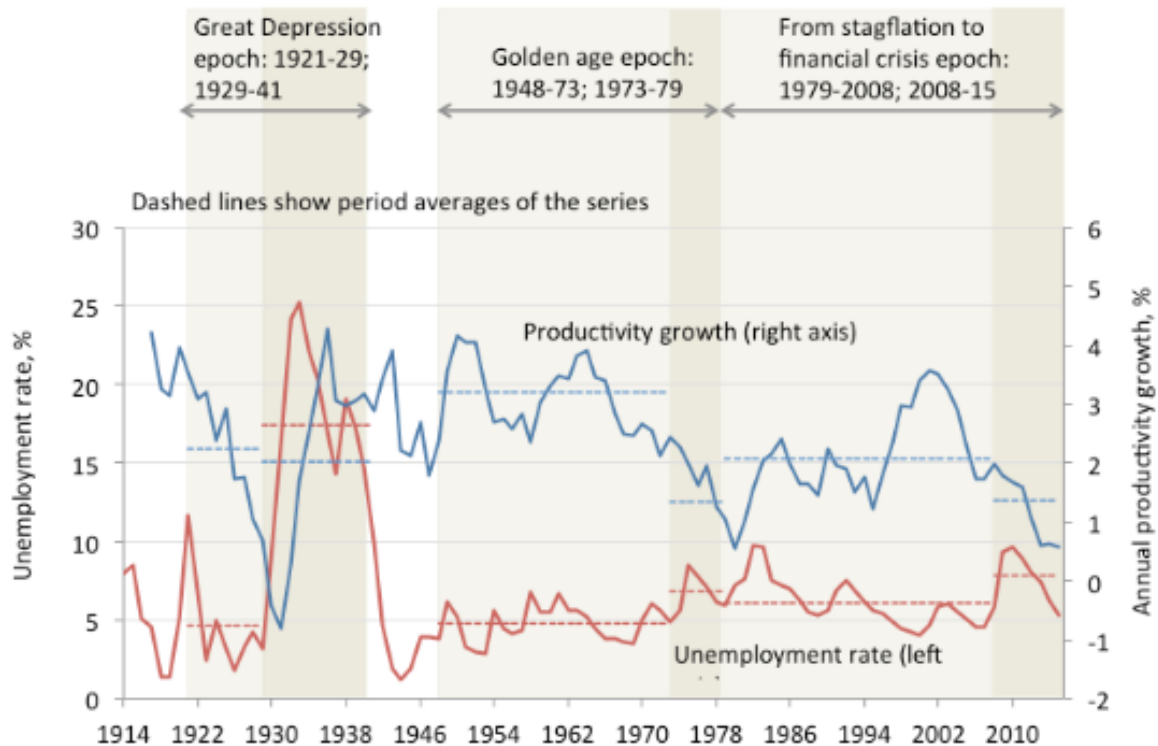


- (A) With less powerful trade unions, the wage-setting curve in the US rapidly fell back, leading to lower wages and higher unemployment.
- (B) With a powerful centralised labour movement, the wage-setting curve was kept high in Sweden, causing high wage demand, low profits, and low unemployment.
- (C) Due to the strong bargaining position of workers, the oil shock primarily hit employers, redistributing income from profits to wages, causing an end to the fair-shares bargaining (the postwar accord) in the US.

- (D) The golden age ended because of aggregate demand problems, caused by the oil shocks of the 1970s.

- 29 (OUP-U17-Q5) Based on the information in Figures 17.2 and 17.3, which of the following statements about the rate of profit and net investment in the golden age (1948-73) and the great moderation (1979-2008) could be true?

Figure 17.2 (upper panel). Unemployment, productivity growth and inequality in the United States (1914-2015)



- (A) Productivity growth is more rapid in the golden age and so we would expect to see a higher level of net investment. Investment is likely to be encouraged by high profits.
- (B) This higher level of investment will leave smaller profits.
- (C) We would thus expect to see higher net investment in the golden age.
- (D) Profits would therefore be lower and net investment higher in the golden age compared to the great moderation.

- 30 (OUP-U17-Q23) Following the collapse of Lehman Brothers in September 2008, some of its managers blamed the US government for putting pressure on banks to lend to subprime borrowers. What effect do you think this had on the household leverage ratios and on the financial risks faced by subprime borrowers? _____
- (A) Leverage ratios rose as banks accepted smaller deposits, but the risk of a fall/rise in house prices is unchanged.
 - (B) This made them more vulnerable to a fall in house prices.
 - (C) Leverage ratios fell and the risk to households increased.
 - (D) Leverage ratios rose but the effect on the risks faced by subprime borrowers is ambiguous (may increase or decrease depending on the household).