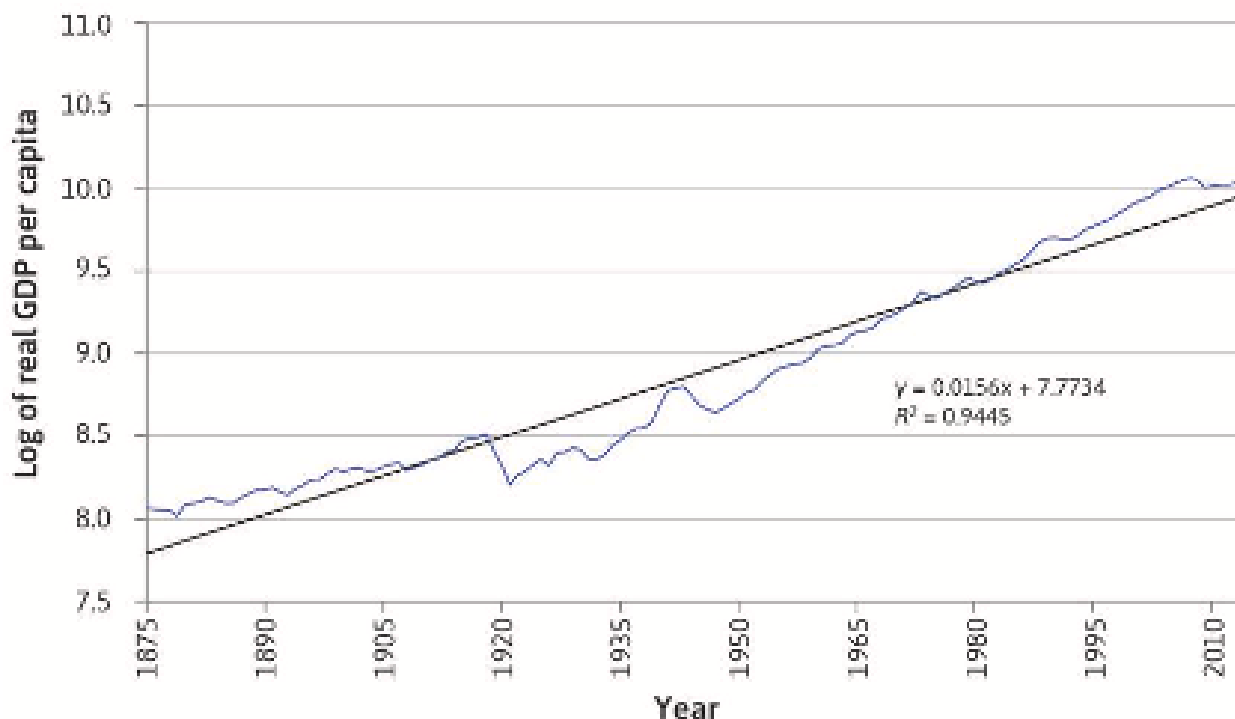


# ECON 2002.01 FINAL EXAM

Hui-Jun Chen

- ① (OUP-U13-Q4) The figure above shows the log of UK real GDP per capita between 1875 and 1914. Which of the following is correct?



- (A) The growth of GDP in the 1950s was above the long-run average.
- (B) The growth of GDP in the 1880s was above the long-run average.
- (C) If, instead, this were 0.02 the line would be flatter.
- (D) The slope of the blue line tells us the rate of growth of per capita GDP but can tell us nothing about the level.
- 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-U13-Q15) Why is investment spending likely to be more volatile than consumption spending? \_\_\_\_\_

- (A) Because investment depends entirely on ‘animal spirits’.
- (B) Because firms cannot foresee the future.
- (C) Because a large part of consumption spending is on items that cannot be postponed. (‘non-discretionary’) – food, heating, lighting, shelter, for example.
- (D) Interest rates fluctuate.

④ (OUP-U13-Q17) Your economy is estimated to be producing about \$800bn-worth of goods and services this year. However, your official statisticians estimate that if all resources were fully-employed, it could produce about \$1000bn. The ratio 0.8 (or 80%,  $\frac{800bn}{1000bn}$ ) therefore indicates: \_\_\_\_\_

- (A) The level of unemployment.
- (B) The savings ratio.
- (C) The degree of capacity utilisation.
- (D) A budget surplus.

⑤ (OUP-U13-Q19) In the current year, your economy is expected to make exports of \$100bn and to import \$80bn-worth of goods and services. When it comes to measuring GDP (or aggregate demand) the net effect of your external sector is to: \_\_\_\_\_

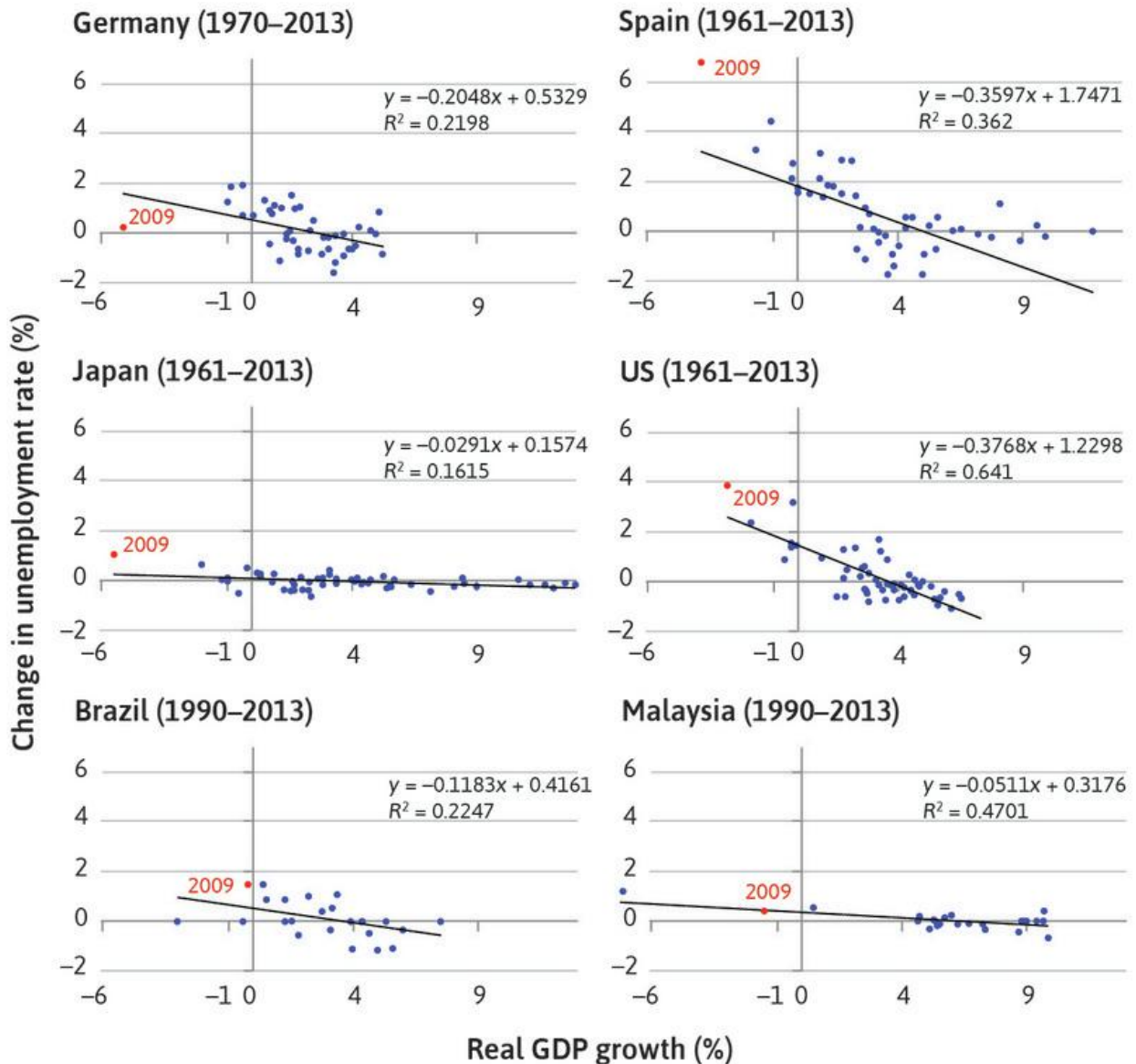
- (A) External trade contributes \$20bn.
- (B) External trade reduces GDP by \$20bn.

- (C) We cannot tell.
- (D) It depends on the composition of imports and exports.

⑥ (OUP-U13-Q13) A temporary change in income affects the current consumption of credit-constrained households more than it does that of the unconstrained because: \_\_\_\_\_

- (A) A credit-constrained household is unlikely to have savings to fall back on.
- (B) If the household cannot borrow, its current consumption is limited by its current income.
- (C) A credit-constrained household cannot foresee the future.
- (D) Credit-constrained households are likely to be shortsighted.

⑦ (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.

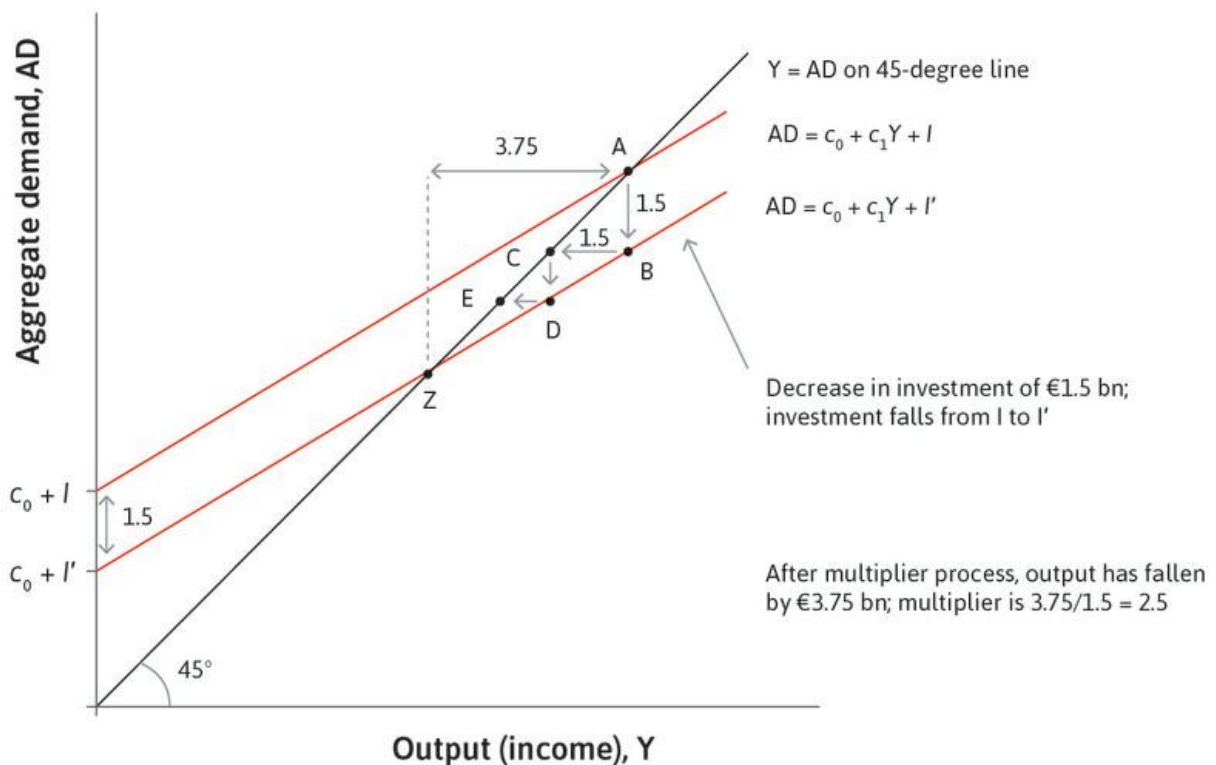
⑧ (OUP-U14-Q3) In the expression for aggregate consumption  $C = C_0 + C_1Y$ ,  $C_1$  is known as: \_\_\_\_\_

- (A) Autonomous consumption.
- (B) The average propensity to consume.
- (C) The multiplier.
- (D) The marginal propensity to consume.

⑨ (OUP-U14-Q7) In an economy with no taxation and no external trade, the size of the multiplier depends on: \_\_\_\_\_

- (A) Investment.
- (B) The current level of aggregate demand.
- (C) Autonomous consumption.
- (D) The marginal propensity to consume.

⑩ (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?

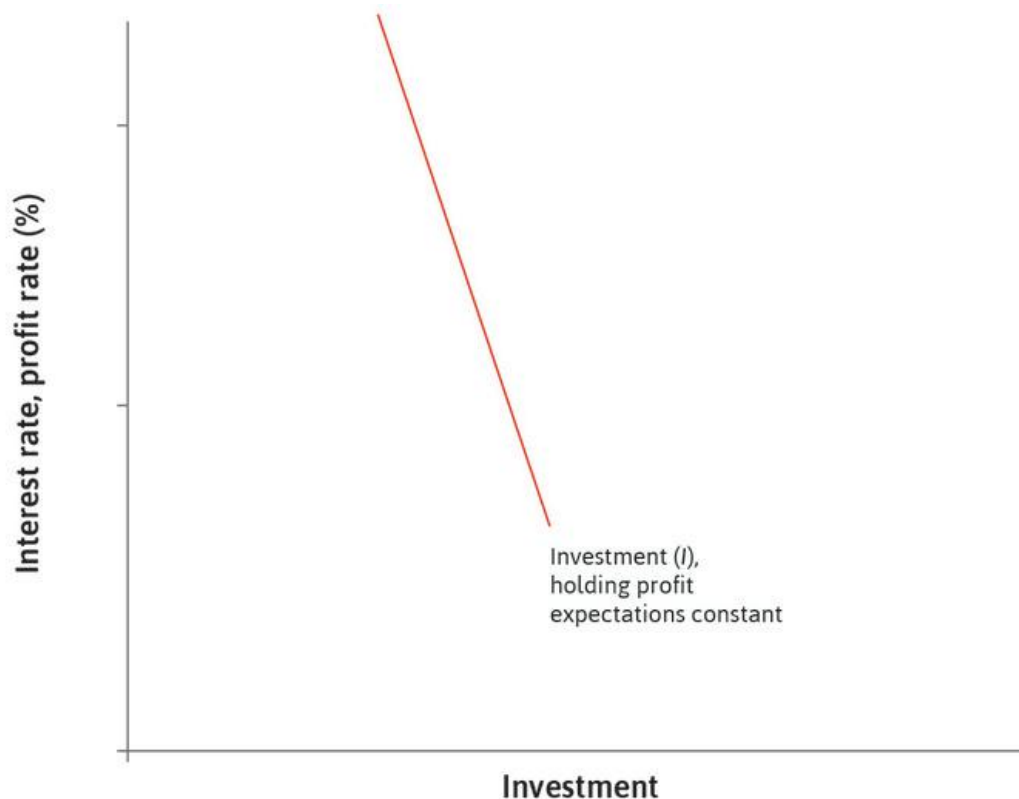


- (A) A reduction in autonomous consumption.
- (B) An increase in target wealth.
- (C) An increase in actual wealth.
- (D) A tightening of credit conditions.

⑪ (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: \_\_\_\_\_

- (A) 0.675
- (B) 2.1
- (C) 1.48
- (D) 2.35

⑫ (OUP-U14-Q15) The central bank announces a rise in the official interest rate to reduce the rate of inflation. Looking at the figure shown, ceteris paribus, the aggregate investment function in these circumstances is likely to:

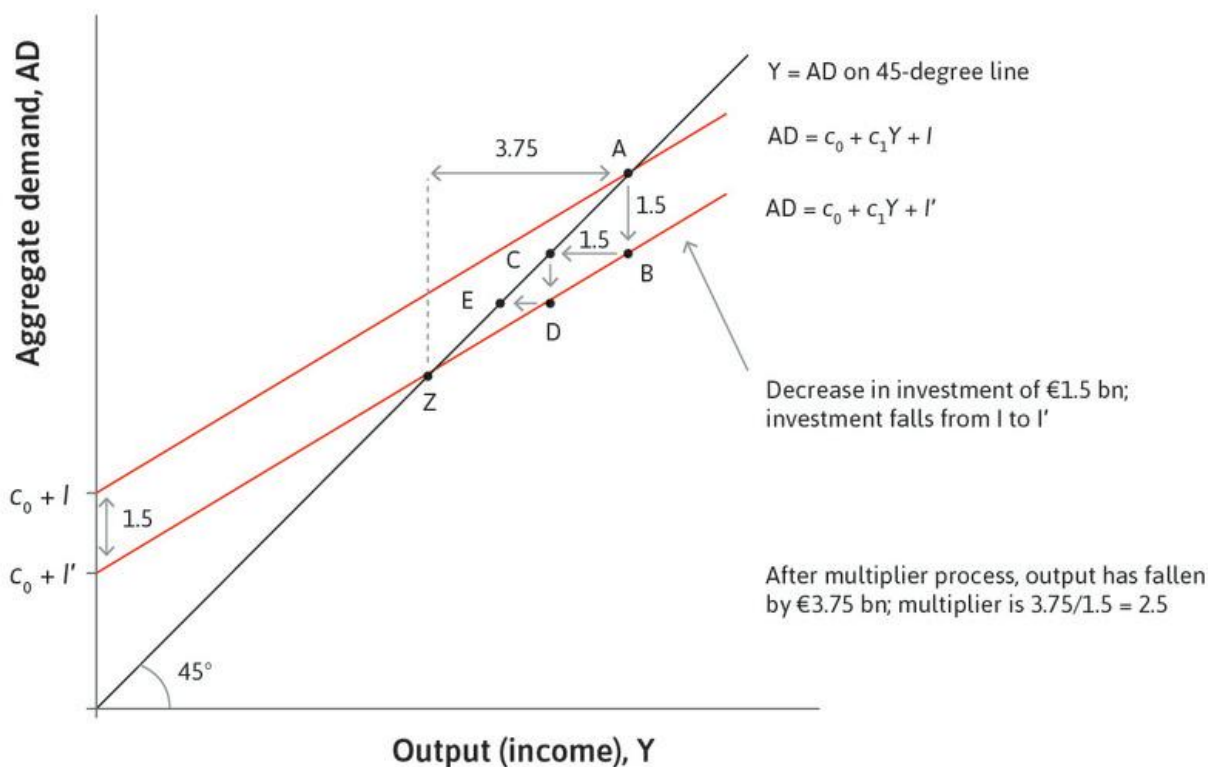


- 
- (A) Become flatter.
  - (B) Become steeper.
  - (C) Shift to the left.
  - (D) Remain unchanged.

⑬ (OUP-U14-Q22) Cuts in public expenditure do not guarantee a reduction in the government's deficit because: \_\_\_\_\_

- (A) Firms will try to pay less tax.
- (B) Aggregate demand will fall, reducing government revenue.
- (C) Aggregate demand falls, and firms invest less.
- (D) There is a fall in autonomous consumption.

⑭ (OUP-U14-Q16) The figure shows a downward shift of the aggregate demand curve, reducing the level of output from A to Z. Suppose that we begin again at A and that this is a full-employment level of output. An increase in aggregate demand in these circumstances will most likely cause:



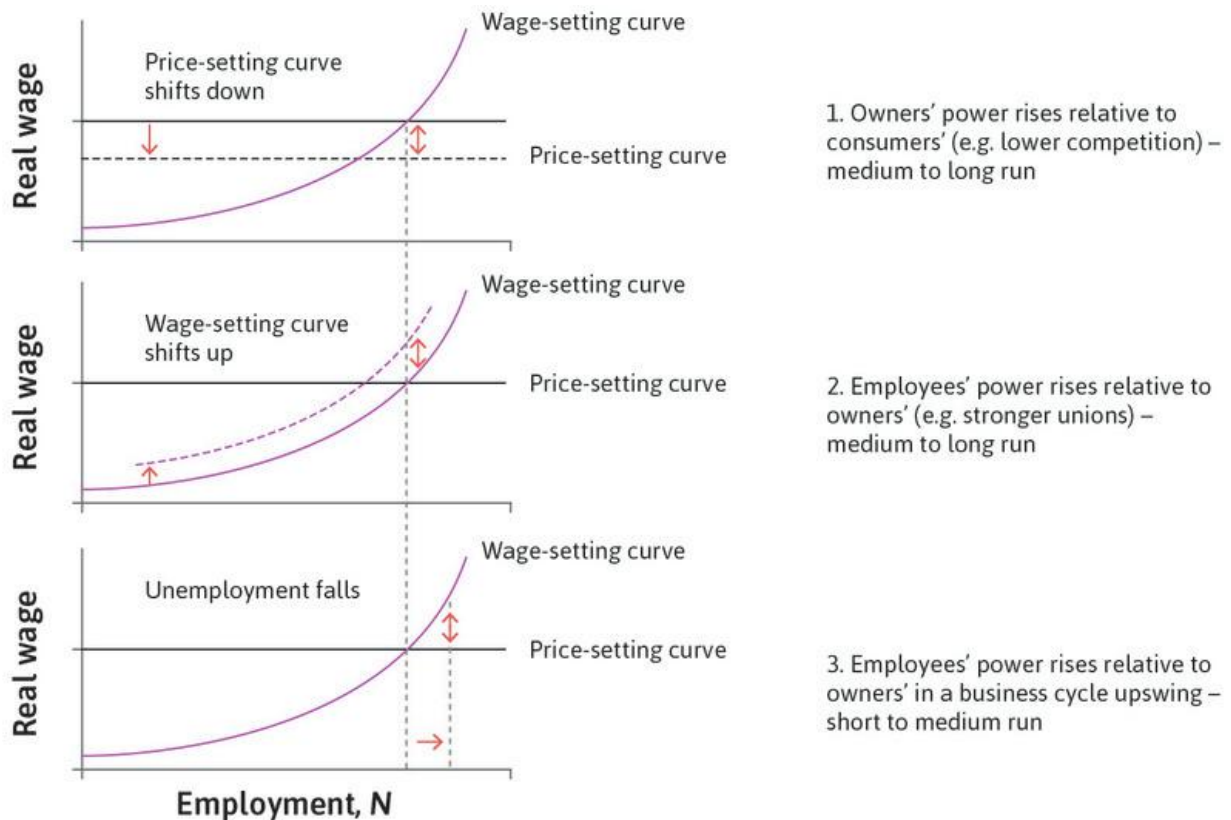
- (A) An increase in employment.
- (B) A fall in wages.
- (C) An increase in output.
- (D) A rise in the general level of prices.

⑮ (OUP-U15-Q2) Which of the following is a definite consequence of a high inflation rate? \_\_\_\_\_

- (A) It reduces everyone's real wealth and real income.
- (B) It makes borrowing more expensive.
- (C) It makes poor people worse off.
- (D) It can distort price signals.

⑯ (OUP-U15-Q11) Suppose that the bargaining power of workers rises relative to that of employers because government legislation improves the security of employment. In terms of the wage-setting/price-setting model shown in the figure:





- (A) We move along the wage-setting curve, to the right.
- (B) The wage-setting curve moves up.
- (C) The wage-setting curve moves down.
- (D) The wage-setting curve becomes flatter.

⑪ (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.

- ⑱ (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%.
- ⑲ (OUP-U15-Q25) It is often said that independent central banks are more likely to run a successful monetary policy than governments because their commitment to low inflation is more 'credible' than government promises. One reason for this is that: \_\_\_\_\_
- (A) Independent central banks are better at economic forecasting.
  - (B) People who work in central banks have a strong dislike of inflation.
  - (C) Central banks can set interest rates.
  - (D) Central banks are less subject to political pressures (e.g. for lower unemployment) than governments.
- ⑳ (OUP-U15-Q18) The main weakness of the original Phillips curve is that it ignored: \_\_\_\_\_
- (A) Time.
  - (B) Household preferences.
  - (C) Policymaker preferences.
  - (D) Expectations.
- ㉑ (OUP-U15-Q25) It is often said that independent central banks are more likely to run a successful monetary policy than governments because their commitment to low inflation is more 'credible' than government promises. One reason for this is that: \_\_\_\_\_

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- (C) Central banks can set interest rates.
- (D) Central banks are less subject to political pressures (e.g. for lower unemployment) than governments.

②② (OUP-U16-Q4) In the short run, successive additions to capital produce smaller and smaller increases in output. Which of the following statement(s) could explain why GDP nevertheless continues to rise In the long run? \_\_\_\_\_

- (A) Workers work harder.
- (B) Government policy encourages economic growth.
- (C) Economies benefit from economies of scale.
- (D) New capital equipment incorporates the latest technological developments.

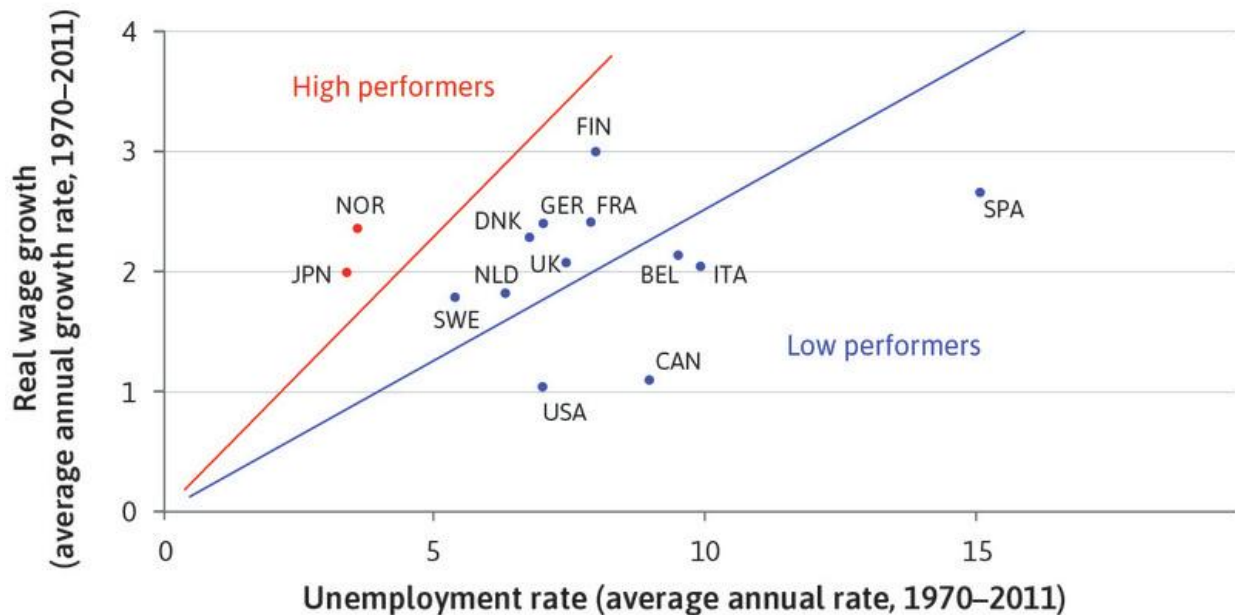
②③ (OUP-U16-Q8) The relationship between the unemployment rate and the job vacancy rate (each expressed as a fraction of the labour force) is known as: \_\_\_\_\_

- (A) The Phillips curve.
- (B) The labour demand curve.
- (C) The wage-setting curve.
- (D) The Beveridge curve.

②④ (OUP-U16-Q11) The profit-maximising mark-up declines as the number of firms increases. This is because: \_\_\_\_\_

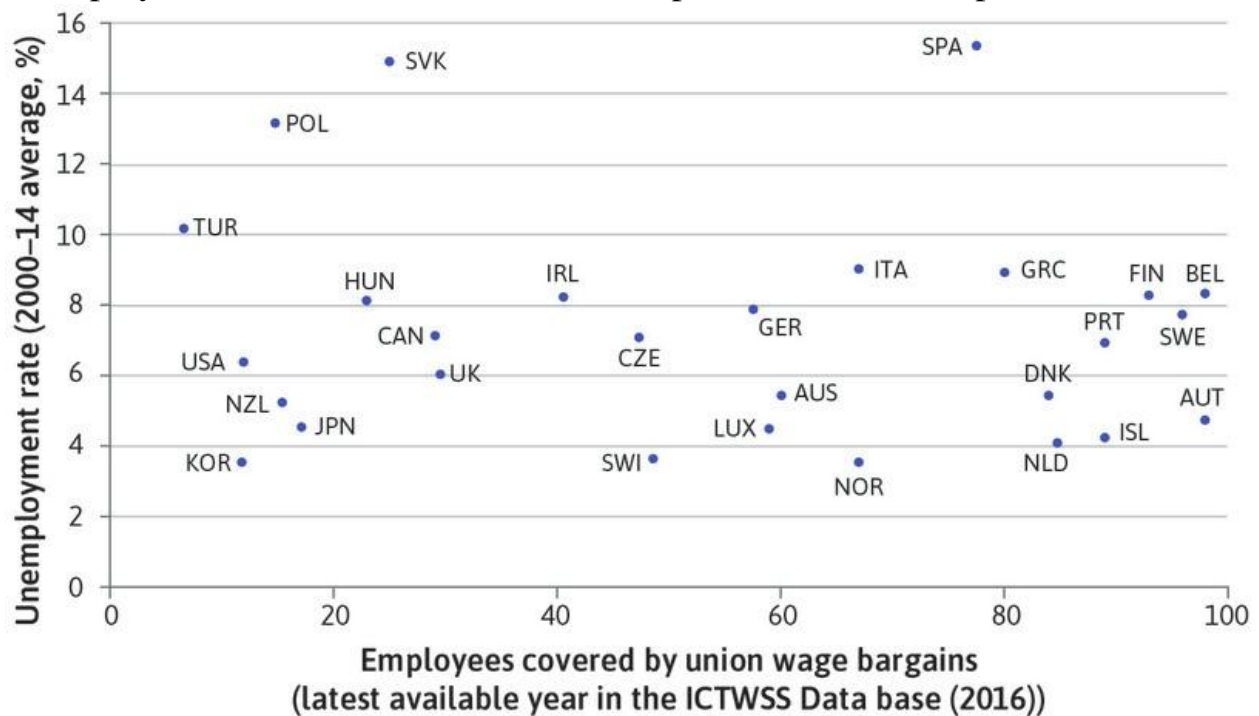
- (A) The greater the number of firms, the more market power they each have.
- (B) Too many firms means diseconomies of scale.
- (C) The lower the individual mark-up, the more firms can share in the profits.
- (D) The larger the number of firms, the more competitive the system is likely to be.

- ②⑤ (OUP-U16-Q14) The widespread introduction of new technology into an economy takes time. The length of time between first appearance and general acceptance is known as: \_\_\_\_\_
- (A) The innovation lag.  
 (B) The time gap.  
 (C) The knowledge lag.  
 (D) The diffusion gap.
- ②⑥ (OUP-U16-Q16) As a result of the diffusion of new technology, in the long run we would normally expect: \_\_\_\_\_
- (A) The price-setting curve to shift downwards.  
 (B) The price-setting curve to slope downward more steeply.  
 (C) An increase in unemployment.  
 (D) The price-setting curve to shift upwards.
- ②⑦ (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'.

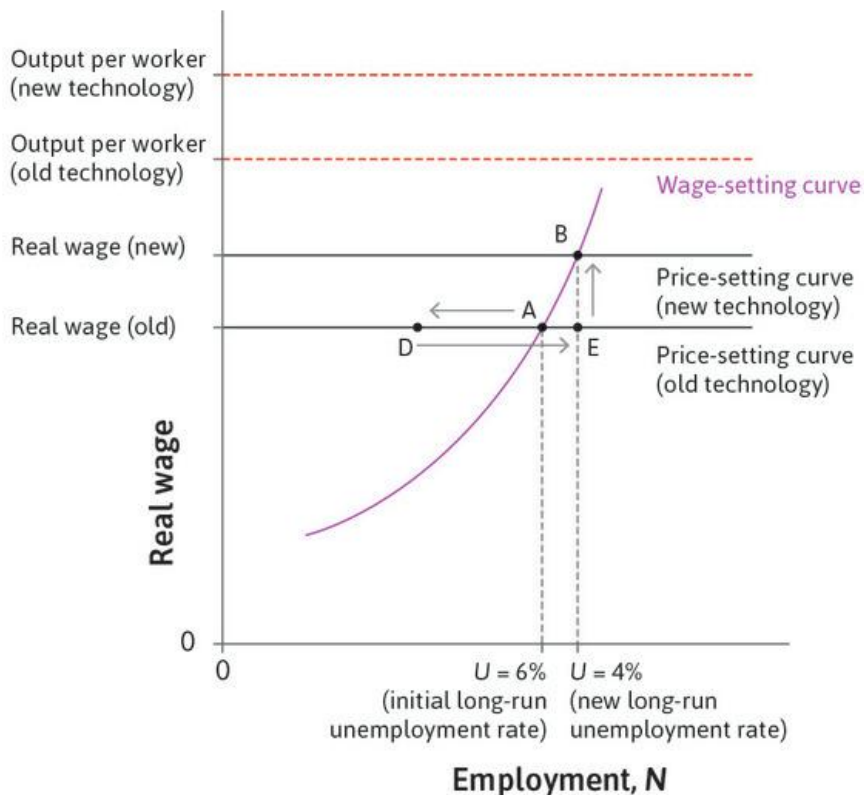
②⑧ (OUP-U16-Q22) Looking at the figure shown, if it were the case that countries with strong trade unions also experienced high unemployment rates, we would expect the data points to be:



- (A) Clustered around a horizontal line.
- (B) Clustered around a downward-sloping line.
- (C) Clustered around an upward-sloping line.
- (D) More randomly dispersed than they are.

②⑨ (ECO-U16-Q7) Figure 16.9b depicts the long-run adjustment process in the labour market after technological progress. Based on

this information, which of the following statements is correct?



**New technology shifts up output per worker and the price-setting curve**

A→D: Introduction of a new technology leads to a rise in unemployment

D→E: High profits encourage new firms to enter

E→B: Lower unemployment leads to rising real wages

B: The new long-run rate of unemployment is 4%

- (A) The new technology does not cause any increase in unemployment, either in the short run or in the long run.
- (B) At D firms increase investment, and hence employment, due to the large gap between the real wage paid and the workers' wage-setting curve.
- (C) Lower unemployment at E implies a higher wage required to induce workers to exert high effort, resulting in the higher real wage at B.
- (D) The adjustment from equilibrium A to the new equilibrium at B is immediate.

③⑩ (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: \_\_\_\_\_

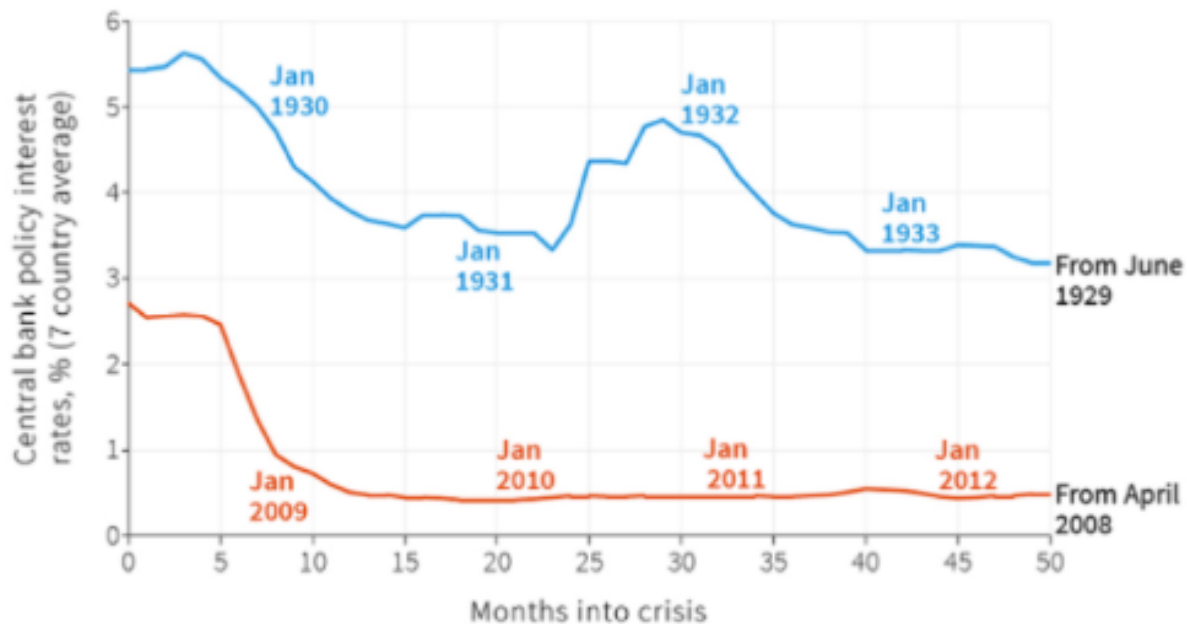
- (A) Risen by 0.2m.

(B) Fallen from 5 per cent to 4 per cent.

(C) Fallen by 0.2m.

(D) Fallen by 0.2 per cent.

- 31 (OUP-U17-Q4) The figure shows that central banks reduced interest rates more sharply and kept them lower after the 2008 crisis than they did in the 1930s. But the figure shows nominal interest rates. Bearing in mind that inflation was slightly negative in the early 1930s and approximately zero from 2009, which of the following statements could be true about monetary policy after 1929 and after 2008?



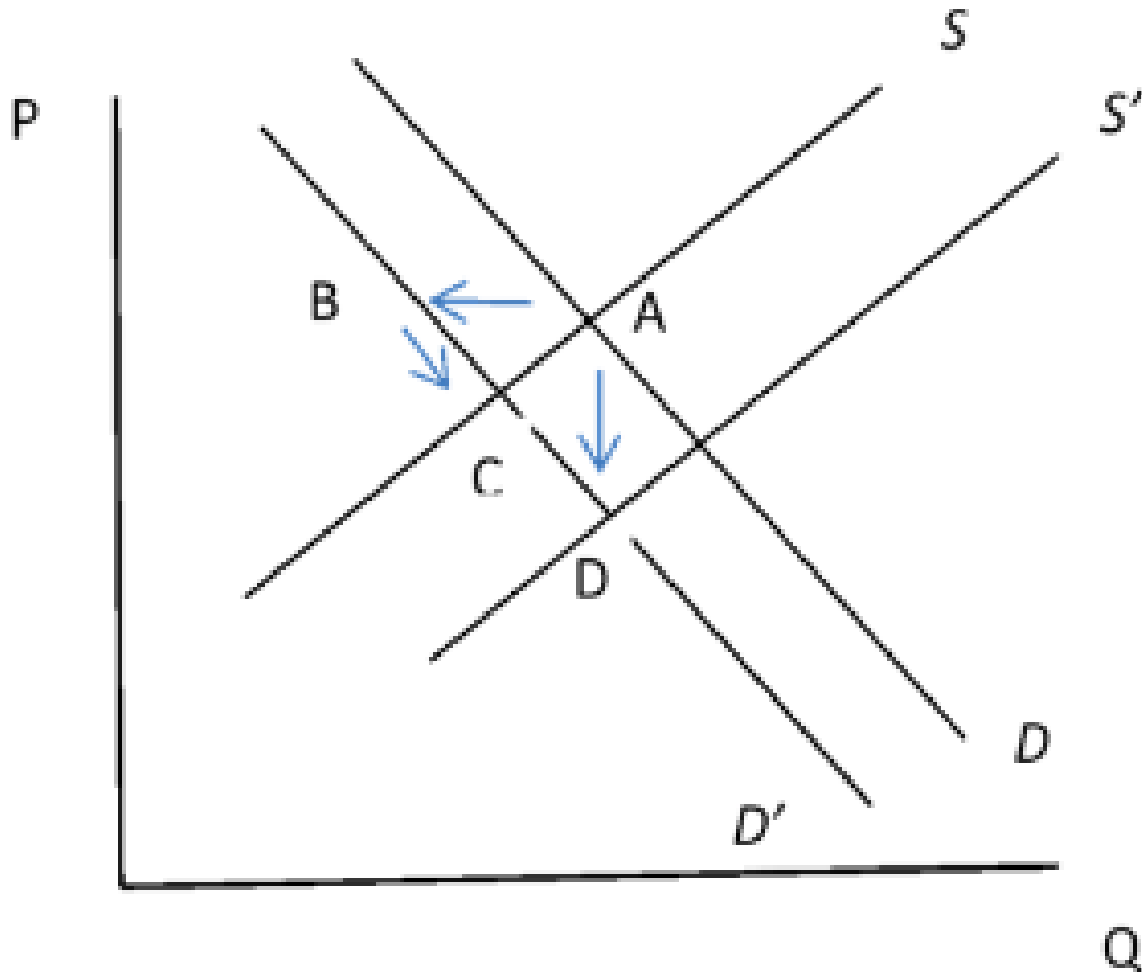
(A) It is real (not nominal) rates that matter, so the figure tells us nothing useful.

(B) Since inflation is roughly zero, the nominal and real rates are the same in both periods.

(C) When we account for inflation, there is little difference in the stance of monetary policy in the two periods.

(D) When we consider real interest rates, monetary policy was even tighter in the 1930s compared with 2008 onwards.

- 32 (OUP-U17-Q9) In the diagram shown, demand for the industry's goods falls from A to B. In the new equilibrium at C, individual firms are now receiving lower revenue. If they try to restore their earnings by producing more, which of the following is likely to happen in the short run?



- (A) They will not be able to sell the additional output, so the market remains at C.
- (B) Producers face a catastrophic fall in prices, partly of their own making.
- (C) We cannot predict what will happen.
- (D) The direction of price and quantity changes depends on the elasticity of demand.



- ③③ (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).

- ③④ (OUP-U17-Q20) According to the original Phillips curve (Unit 15), higher inflation is associated with lower unemployment. The term ‘stagflation’ was coined to describe the unusual situation in the 1970s where unemployment and inflation both rose together. Which of the following best summarises the underlying causes? \_\_\_\_\_

- (A) Lower profits and a reduced rate of net investment meant a slower increase in productivity.
- (B) The lower growth of productivity meant a slower growth in the real wage and in the upward movement of the price-setting curve.
- (C) The result is that the wage and price-setting curves intersect at a lower employment (higher unemployment) rate than before.
- (D) It also led people, workers especially, to expect inflation and therefore to build it into wage settlements.

- ③⑤ (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.
- ③⑥ (TEA-U17-Q1) Herbert Hoover was the US President between 1929 and 1933. During this time: (1) President Hoover advocated a balanced budget which remained within the range of -0.6% to +0.8% of GNP in 1929-31, (2) Output was 20% below the full employment level in 1931, (3) The short-term nominal interest rate fell from 5.8% in 1929 to 1.7% in 1933, (4) The CPI decreased from -2.7% in 1930 to -10.3% in 1932 and (5) The US remained on the gold standard while the UK abandoned the regime in 1931. Which of the following statements regarding this period is correct? \_\_\_\_\_
- (A) The government's balanced budget contributed to the stabilisation of economic activity.  
(B) Despite the cut in the nominal interest rate, monetary policy was contractionary during this period.  
(C) The cut in the nominal interest rate was possible due to the US remaining in the gold standard.  
(D) The fact that the UK left the gold standard made it easier for the US to remain in the gold standard.
- ③⑦ (OUP-U17-Q13) Imagine that you are responsible for policymaking in an economy that is experiencing a deep recession. You and your colleagues announce a number of measures (like those in Roosevelt's 'New Deal') that you tell everyone will boost demand and output. Why does it matter whether the public believes your announcement? \_\_\_\_\_

- (A) It does not. If the measures are appropriate, aggregate demand will increase, regardless of what anyone thinks.
- (B) People will feel more confident about the future and increase their spending, which will reinforce the actions of government.
- (C) It might be better if they simply ignored your promises.
- (D) You are more likely to be re-elected if people believe that you tried to do something.

③⑧ (OUP-U17-Q24) It is well known that financial transactions frequently involve asymmetric information, because one party to the deal (usually the borrower) has better information about the risk and return to which the borrowed funds will be exposed than the other party (typically the lender). How does the concept of asymmetric information help us understand the particular events described in Section 17.11 (The role of banks in the crisis)? \_\_\_\_\_

- (A) Banks were reluctant to lend to households and firms because they did not know the risks involved.
- (B) Central banks were reluctant to provide liquidity because they could not make an accurate assessment of which banks were solvent.
- (C) In the credit crunch, banks were reluctant to lend to each other because they knew that risk was widespread because of large holdings of financial assets that were hard to value, and whose distribution amongst banks was unknown.
- (D) Households were reluctant to lend to banks because they could not assess their risk.

③⑨ (ECO-U17-Q3) Franklin Roosevelt became the US President in 1933. In the period after he became the president: The federal government deficit increased to 5.6% of GNP in 1934. The short-term nominal interest rate fell from 1.7% in 1933 to 0.75% in 1935. The CPI fell by 5.2% in 1933 and rose by 3.5% in 1934. The US left the gold standard in April 1933. The New Deal was launched in 1933 and included proposals to increase federal government spending in a wide range of programs and reforms to the banking system. Which of the following statements is correct regarding the years immediately after Roosevelt became the US president? \_\_\_\_\_

- (A) A change in the expectations of consumers of their future earnings, as a result of the New Deal, would have contributed to an expansion in the economy's aggregate demand.
- (B) The value of the US dollar increased as the result of the abandonment of the gold standard and allowed the nominal interest rate to be cut to close to zero.
- (C) The real interest rate rose after 1933.
- (D) Fiscal contraction from the increased government deficit would have contributed to the economy escaping from the Depression.

④ (OUP-U17-Q21) A household owns a house valued at \$190,000, which it has bought with a loan of \$180,000. It also has financial savings of \$10,000. Which of the following shows its net worth at the outset, the minimum amount the value of the house has to fall in order to put the household into negative equity (on the house), and the minimum amount the value of the house has to fall to make the household insolvent? \_\_\_\_\_

- (A) \$20,000; £20,000; \$20,001.
- (B) \$200,000; \$10,001; \$190,000.
- (C) \$20,000; \$10,001; \$20,001.
- (D) \$200,000; \$10,001; \$20,001.