

ECO 181 Summer 2023 - Exam #02

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Q1 Use the following information about the economy of Country A to answer the following questions:

2018 GDP - \$689 billion

2018 Taxes - \$117 billion

2018 Investment - \$345 billion

2018 Government Spending - \$144 billion

2018 Consumption - \$454 billion

a) What was the value of net exports in 2018?

b) What was the value of net capital inflow in 2018?

Q2 If the interest rate increases (all other things unchanged), the supply of loanable funds would _____ [remain the same/ shift to the left/ shift to the right], the demand of loanable funds would _____ [remain the same/ shift to the left/ shift to the right].

Q3 Assume a government implements large tax increases on business investments(all other things unchanged), the supply of loanable funds would _____ [remain the same/ shift to the left/ shift to the right], the demand of loanable funds would _____ [remain the same/ shift to the left/ shift to the right].

Q4 Inflation in Mexico rose from 4.01% in August 2020 to 4.09% in October 2020. By how many percentage points did real interest rates have changed over the same period, assuming that nominal interest rates remained fixed during this time? Answer: _____% (hint: if the real interest rate increase, the answer should be a positive number; if the real interest rate decrease, the answer should be a negative number.)

Q5 Use the following information about the economy of Country A to answer the following questions.

2011 GDP - \$460 billion

2012 GDP - \$513 billion

2011 Consumption - \$477 billion

2012 Consumption - \$529 billion

a) Suppose that Country A has an MPC of 0.98. What is its simple spending multiplier?

b) If It wanted to close a recessionary gap of \$100 billion, by how much would it have to increase government spending? (assume no crowding out effect)

Q6 According to the interest-rate effect, aggregate demand slopes downward because

- A. lower prices increase the value of money holdings and consumer spending increases.
- B. lower prices decrease the value of money holdings and consumer spending decreases.
- C. lower prices reduce money holdings, increase lending, interest rates fall, and investment spending increases.
- D. lower prices increase money holdings, decrease lending, interest rates rise, and investment spending falls.

Q7 Indicate whether each of the following statements is true or false.

An increase in the available labor would shift the long-run aggregate supply curve.

An increase in the available capital would shift the long-run aggregate supply curve.

An increase in the available technology would shift the long-run aggregate supply curve. _____

An increase in the price expectations would shift the long-run aggregate supply curve.

Q8 Mexico is one of the larger non-OPEC oil exporters, and it exports a sizeable amount of oil to the US. As a result of shutdowns and reduced travel, the US has reduced its imports of Mexican oil. This has caused Mexico's _____[aggregate Demand/ short-run aggregate supply/ long-run aggregate supply] to decrease and unemployment to _____[increase/ decrease] in the short run.

Q9 Mexico increased its minimum wage in January 2020. As a result, its short-run aggregate supply curve _____ [remained the same/ increased/ decreased], and its long-run aggregate supply curve _____ [remained the same/ increased/ decreased]. In the short

run, price levels _____ [remained the same/ increased/ decreased] and production _____ [remained the same/ increased/ decreased]. In the long run, production _____ [remained the same/ increased/ decreased] (relative to the original equilibrium).

Q10 Stagflation occurs when the economy experience _____[falling/ rising] prices and _____[falling/ rising] output.

Q11 As of September 2020, Mexico reported the following:

Currency in circulation: 1.7 trillion pesos

Reserves held at the central bank: 0.2 trillion pesos

Demand deposits: 3.5 trillion pesos

Savings and small time deposits: 4.9 trillion pesos

a) What was the size of Mexico's monetary base? Answer: _____ trillion pesos

b) what was the size of Mexico's M1? Answer: _____ trillion pesos

c) What was the size of Mexico's M2? Answer: _____ trillion pesos

Q12 Mexico's required reserve ratio is 10.5%. What is the size of its simple money multiplier? (Round to one decimal place)

Answer: _____

Q13 Between December 2019 and August 2020, demand deposits in Mexico increased by 540 billion pesos. The required reserve ratio in Mexico is 10.5%. By how much did required reserves increase during this same period? (one decimal place)

Answer:_____ billion pesos

Q14 Identify what type of policy [expansionary monetary policy/ contractionary monetary policy/ expansionary fiscal policy/ contractionary fiscal policy] Vietnam engaged in 2021.

1. The central bank of Vietnam reduced the interest rate paid for excess reserves from 0.5% to 0% in April 2021.
2. The central bank of Vietnam has been purchasing financial assets from commercial banks.
3. The government of Vietnam has announced that it will pare back its spending in 2022.
4. The government of Vietnam has announced that it will not only extend but also increase some of its tax cuts through 2022.

Q15 Indicate whether each of the following statements is true or false.

- Monetary policy is usually easy or quick to implement and doesn't require additional government spending. _____
- Credit cards are a medium of exchange. _____
- The discount rate is the rate the Federal Reserve charges banks for loans. By lowering this rate, the Fed provides banks with a greater incentive to borrow from it. _____
- As the price level falls, the value of money falls. _____

Q16 When people hold dollars in their savings accounts for the purpose of consuming in the future, what function of money are their savings accounts fulfilling?

- A. Medium of exchange
- B. Unit of account
- C. Store of value
- D. (None of the above - savings accounts are not money)

Q17 If policymakers were to use fiscal policy to actively stabilize the economy, in which direction should they move government spending and taxes?

a) A wave of pessimism reduces business investment and household consumption.

_____ Government spending; _____ Taxes

b) Foreigners increase their taste for domestically produced Ford automobiles

_____ Government spending; _____ Taxes

Q18 Which of the following policy combinations would consistently work to increase the money supply?

- A. sell government bonds, decrease reserve requirements, decrease the discount rate
- B. sell government bonds, increase reserve requirements, increase the discount rate
- C. buy government bonds, increase reserve requirements, decrease the discount rate
- D. buy government bonds, decrease reserve requirements, decrease the discount rate

Q19 As early as the year 1000 CE, Norway used silver and other metal coins as currency. This is an example of _____ [commodity money/fiat money]. Today, the krone follows the price of oil pretty closely, but it is not directly convertible to any commodity or any other currency. This is an example of _____ [commodity money/fiat money].