

CENTRAL UNIVERSITY

MAY RESIT EXAMINATION: 2018/2019

**FACULTY OF ARTS AND SOCIAL SCIENCES
DEPARTMENT OF ECONOMICS
ECON 302 (3 CREDITS)**

**INTERMEDIATE MACROECONOMICS
LEVEL 300**

MAY, 2019

DURATION: 2 HOURS 30 MINUTES

STUDENT ID

No.....

INSTRUCTIONS

ANSWER ALL QUESTIONS IN SECTION A AND ANY TWO (2) QUESTIONS IN SECTION B

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BY THE INVIGILATOR**

LECTURER: Paragon POMEYIE

SECTION A

(Answer ALL questions in this section)

Question 1

Consider an economy described by the following equations:

$$Y = C + I + G + X - M$$

$$C = 4000 + 0.9Y_d$$

$$Y_d = Y - T$$

$$T = 0.3Y$$

$$I = 200 - 1800i$$

$$G = 200$$

$$X = 1200$$

$$M = 1000 + 0.1Y$$

$$L = 0.8Y - 3000i$$

$$M_s = 1200$$

$$P = 1$$

Required

- Derive an expression for the IS curve (8 marks)
- Derive an expression for the LM (6 marks)
- Determine the values for Y and i that guarantee simultaneous equilibrium in the goods and money market. (6 marks)

[Total: 20 Marks]

Question 2

You have been appointed an economist by Wishwell&Partners a Research and Consulting Firm. Your appointment coincided with the Bank of Ghana reducing its prime/discount rate from 16.5% to 18.5%. As your first assignment, you have been asked to review the Bank of Ghana's policy on the economy.

Required:

- Identify and explain the kind of macroeconomic policy and policy stance the Bank of Ghana is pursuing. (1 mark)
- Suppose the money market in Ghana was in equilibrium before the Bank of Ghana's policy activity.
 - Draw a graph in interest rate - real money balance space to depict the state of the money market before the Bank of

Ghana's policy activity. Label the initial equilibrium point E_0 , the equilibrium interest rate $[r_0]$ and real money balance $[Ms/P]_0$.
(4 marks).

- ii. Illustrate on the diagram drawn to answer b (i) the Bank of Ghana's policy activity. Label all curves drawn with subscript (1). (2 marks)
- iii. Explain in detail the reasons for the change in the magnitudes you have observed. (6 marks).

c. Determine and explain the expected impact of the Bank of Ghana's policy activity on the following

- i. Real GDP in Ghana (1 mark)
- ii. Components of Aggregate Expenditure in Ghana (C, I, G, X and M) (5 marks)
- iii. Unemployment rate in Ghana. (1 mark)

[Total 20 marks]

SECTION B

(Answer any THREE questions from this section)

Question 3

- a. Derive the AD curve with the help the IS/LM model for an open economy stating clearly the basic assumption(s) you have made and explaining the procedure. (8 Marks)
- b. Give and explain three reasons for the slope of a normal AD curve. (12 Marks)

[Total: 20 Marks]

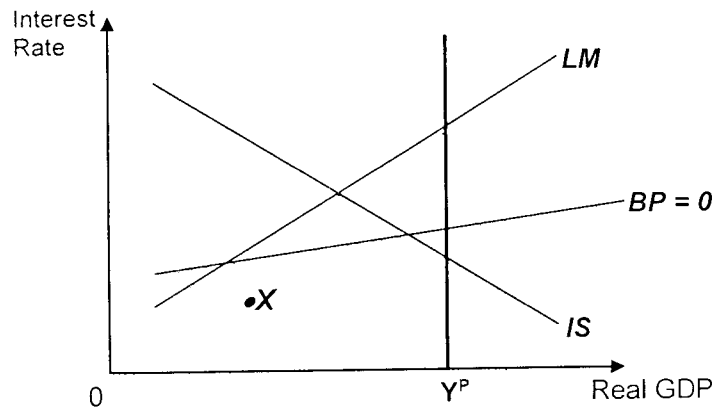
Question 4

- a. What is aggregate supply curve? (4 Marks)
- b. Identify and explain two (2) factors that determine the aggregate supply. (8 Marks)
- c. Why do the short run and Long run aggregate supply differ? (6 Marks)

[Total: 20 Marks]

Question 5

With the help of the diagram below answer the following questions



- a. Suppose that the interest rate and real GDP combination is such that the economy is at point **X** in the diagram. Determine the state of
 - i. the Balance of Payments (2 Marks)
 - ii. the Money Market and (2 Marks)
 - iii. the Goods Market (2 Marks)
- b. Redraw the diagram and explain the path of this economy to simultaneous equilibrium in the goods and assets markets. (6 Marks)
- c. What implications will the event in (b) have for the state of the balance of payments? (4 Marks)
- d. Recommend a policy mix for this economy to achieve internal balance and external balance. (4 marks)

[Total: 20 Marks]

Question 6

a. Explain the following terms

- i. Crowding out (3 marks)
- ii. Liquidity trap (3 marks)
- iii. Accommodating monetary policy. (3 marks)
- iv. Independent monetary policy (3 marks)

b. Discuss the view that the effectiveness of fiscal policy depends on the slope of the LM curve. (8 marks)

[Total: 20 Marks]