CENTRAL UNIVERSITY

FAITH • INTEGRITY • EXCELLENCE

2021/2022 END OF SECOND SEMESTER EXAMINATIONS

FACULTY OF ARTS AND SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

ECON 318: Intermediate Macroeconomics II

Time Allowed: 2 hours 30 minutes

INSTRUCTIONS

Answer all questions in Section **A** and any two (2) questions in Section **B**.

Lecturer: Paragon POMEYIE

SECTION A: OBJECTIVE TEST – 50 marks
Answer all questions in this section

1. A rightward shift in aggregate supply curve is likely to:
    a) Reduce the general price level and reduce national income
    b) Reduce the general price level and increase national income
    c) Increase the general price level and reduce national income
    d) Increase the general price level and increase national income

2. An increase in aggregate demand will have most effect on prices if:
    a) Aggregate supply is price inelastic
    b) Aggregate supply is price elastic
    c) Aggregate supply has a unitary price elasticity
    d) Aggregate demand is price inelastic

3. Improved training of employees would:
    a) Shift aggregate supply outwards at each price
    b) Shift aggregate supply inwards at each price
    c) Shift aggregate demand outwards at each price
    d) Shift aggregate demand inwards at each price

4. If aggregate supply is totally price inelastic, an increase in aggregate demand will:
    a) Increase price but not output
    b) Increase output but not price
    c) Increase output and price
    d) Decrease output and price

5. Which of the following would NOT cause a SHIFT in AS?
    a) The level of government spending
    b) The costs of the factors of production
    c) Incentives
    d) The structure of the economy

6. If the price of imports rose, caused by a change in the value of the cedi then the AS would shift to the:
    a) Right
    b) Left
    c) Vertically
    d) not at all

7. Which of the following is a major influence on AS?
    a) Consumption
    b) Government spending
    c) The quality of the factors available
    d) The advice of government

8. An increase in aggregate demand (*given no change in aggregate* supply) will cause:
    a) Higher inflation.
    b) Lower inflation
    c) Deflation
    d) Any of the above

9. An increase in costs will make the aggregate supply curve:
    a) more inelastic.
    b) more elastic.
    c) Shifts it down
    d) Shifts it up

10. When using AD/AS analysis to illustrate changes within an economy, which of the following would NOT need to be considered when looking at changes to economic growth?

    a) Increased labour productivity

b) More efficient use of the capital stock
c) Increased availability of social capital
d) Developing a more efficient capital and finance sector

11. What does the Phillips Curve describe?
  a) The inverse relationship between inflation and investment
  b) The relationship between unemployment and GDP
  c) The inverse relationship between the GDP and inflation
  d) The inverse relationship between inflation and unemployment in the economy

12. What relationship does the Phillips Curve illustrate?
  a) When inflation is low, unemployment is high.
  b) When inflation is low, unemployment is low.
  c) When inflation is low, the real interest rate is high.
  d) When unemployment is high, inflation is high.

13. In the short run, there tends to be a tradeoff between _____ and _____.
  a) inflation and unemployment
  b) unemployment benefits and the Federal Reserve
  c) supply and demand
  d) demand and economic output

14. The Phillips Curve is a graphical depiction of the
  a) positive relationship between inflation and output.
  b) negative relationship between inflation and the CPI.
  c) negative relationship between inflation and unemployment.
  d) negative relationship between unemployment and output.

15. The long-run Phillips Curve is vertical which indicates
  a) that in the long-run, there is no tradeoff between inflation and unemployment.

b) that in the long-run, there is no tradeoff between inflation and the price level.
c) that in the long-run, the economy returns to a 4 percent level of inflation.
d) None of the above.

16. If the Aggregate Demand curve shifts to the left,
a) the economy moves up and to the left along the short-run Phillips Curve.
b) the economy moves down and to the right on the short-run Phillips Curve.
c) the economy moves up the long-run Phillips Curve.
d) there is no impact on the Phillips Curve

17. When the economy is on the long-run Phillips Curve, we know that
a) we are at full employment.
b) the unemployment rate is at its natural rate.
c) any rate of inflation could be consistent with the current rate of unemployment.
d) All of the above.

18. Given the equation for the Phillips Curve:

Inflation rate (π) = $\pi^e - \beta(U - U^N)$,

if $\beta = 0.5$, $U^N = 5.0$, $U = 6.0$, and $\pi^e = 3$, then the current rate of inflation is

a) 2.0%
b) 2.5%
c) 3.0%
d) 3.5%

19. From the equation above in question eighteen (18), what would be the rate of inflation in the long run?

a) 2.0%
b) 2.5%
c) 3.0%
d) 3.5%

20. The short-run Phillips Curve shifts upward when
    a) the Aggregate Demand curve shifts to the right.
    b) the Aggregate Supply curve shifts to the right.
    c) there is a fall in inflation expectations.
    d) there is a rise in inflation expectations.

21. The short-run Phillips curve seemed to break down in the 1990s. A possible explanation for this breakdown is
    a) an increase in inflation expectations.
    b) an increase in labor productivity.
    c) a surge in oil prices.
    d) none of the above.

22. The economist who proposed that, "Inflation is always and everywhere a monetary phenomenon" was
    a) John Maynard Keynes.
    b) John R. Hicks.
    c) Milton Friedman.
    d) Franco Modigliani.

23. A simple solution to fighting inflation is
    a) reducing the growth rate of the money supply..
    b) limiting the number of terms that politicians can serve in elective office.
    c) returning the economy to barter by prohibiting the use of fiat money.
    d) to impose price controls on businesses that attempt to raise prices.

24. A one-time increase in the price level

a) is rarely reported by the news media as inflation, but is nevertheless considered to be inflation by economists.
b) is regularly reported by the news media as inflation, but is not considered to be inflation by economists.
c) is rarely reported by the news media as inflation because it is not considered to be inflation by economists.
d) is regularly reported by the news media as inflation because it is considered to be inflation by economist

25. A decrease in money supply...

a) increases aggregate demand through an increase in the interest rate
b) increases aggregate demand through a decrease in the interest rate
c) decreases aggregate demand through an increase in the interest rate
d) decreases aggregate demand through a decrease in the interest rate

26. An increase in the budget deficit ...

a) raises the domestic interest rate
b) increases net foreign investment
c) decreases the real exchange rate
d) increases demand for domestic currency

27. The crowding out effect...

a) decreases aggregate supply through an increase in the interest rate
b) increases aggregate demand through an increase in the interest rate

c) decreases aggregate demand through an increase in the interest rate
d) decreases aggregate supply through a decrease in the interest rate

28. Monetarists determine the aggregate demand curve from
   a) the equation of exchange.
   b) its three component parts: consumer expenditure, investment spending, and government spending.
   c) its four component parts: consumer expenditure, investment spending, government spending, and net exports.
   d) the spending multiplier

29. The aggregate demand curve is downward sloping because
   a) a lower price level, holding the nominal quantity of money constant, leads to a larger quantity of money in real terms, causes the interest rate to fall, and stimulates planned investment spending.
   b) a lower price level, holding the nominal quantity of money constant, leads to a larger quantity of money in nominal terms, causes the interest rate to rise, and stimulates planned investment spending.
   c) a higher price level, holding the nominal quantity of money constant, leads to a larger quantity of money in real terms, causes the interest rate to fall, and stimulates planned investment spending.
   d) a higher price level, holding the nominal quantity of money constant, leads to a smaller quantity of money in real terms, causes the interest rate to fall, and stimulates planned investment spending

30. Along a given aggregate supply curve an increase in the price level leads to an increase in aggregate output because
   a) firms increase production in response to higher profits.
   b) workers work more hours, due to the increase in the real wage.
   c) workers work more hours, due to the decrease in the real wage.

d) none of the above are true.

31. The positively sloped short-run aggregate supply curve reflects the assumption that

a) factor prices are more flexible than output prices.
b) output prices are more flexible than factor prices.
c) factor prices are fixed in the long run.
d) factor prices are perfectly flexible in both the short run and the long run.

32. Which of the following statements are true of the aggregate supply curve?

a) The aggregate supply curve describes the relationship between the quantity of output supplied in the short run and the price level.
b) The aggregate supply curve shifts leftward when costs of production increase.
c) The aggregate supply curve shifts rightward when costs of production decrease.
d) All of the above.

33. When actual output exceeds the natural rate level of output

a) the aggregate demand curve shifts to the left.
b) the aggregate demand curve shifts to the right.
c) the aggregate supply curve shifts to the left.
d) the aggregate supply curve shifts to the right.

34. The long-run aggregate supply curve is

a) a vertical line through the non-inflationary rate of output.
b) a vertical line through the current level of output.
c) a vertical line through the natural rate level of output.
d) a horizontal line through the current level of output.

35. The bottom line of aggregate demand and supply analysis suggests that

a) a one-time increase in the money supply will mean a permanent increase in aggregate output.
b) a one-time increase in government spending will mean a permanent increase in aggregate output.
c) changes in monetary or fiscal policy affect output only in the short run.
d) both (a) and (b) are correct.

36. The aggregate demand-aggregate supply framework indicates that the long-run effect of a ______ in the money supply is an increase in ______.

a) fall; aggregate output
b) fall; the price level
c) rise; aggregate output
d) rise; the price level

37. A period of rising prices and rising unemployment indicates that the economy has experienced

a) a leftward shift of the aggregate demand curve.
b) a rightward shift of the aggregate demand curve.
c) a leftward shift of the aggregate supply curve.
d) a rightward shift of the aggregate supply curve.

38. An OPEC oil price increase are referred to is ______ ______ shocks and cause the aggregate ______ curve to shift ______.

a) negative demand; demand; left
b) negative demand; demand; right
c) negative supply; supply; left
d) positive supply; supply; left

39. The expectations-augmented Phillips curve implies that as expected inflation increases, nominal wages _____ to prevent real wages from _____.

a) fall; rising
b) fall; falling
c) rise; falling
d) rise; rising

40. Inflationary gap occurs when

a. actual output exceeds potential output.
b. actual output is less than potential output.
c. actual output is equal to potential output.
d. actual output and potential rise together.

41. In an economy if gross domestic product increases precautionary demand for money __________ and interest rate_________.

a. Increases. increases
b. Decreases, increases
c. Fluctuates, falls
d. Decreases, decreases

42. When bond prices are increasing it is an indication that interest rate is

a. decreasing
b. increasing
c. constant
d. unaffected

43. An increase in minimum wages unmatched by increase productivity may lead to

a. demand pull inflation
b. cost push inflation
c. imported inflation

d. creeping inflation

44. When someone decides on the mixture of financial assets to hold he is making a/an
    a. asset decision
    b. portfolio decision
    c. monetary decision
    d. capital investment decision

45. The demand for money curve is negatively sloped because of
    a. transactions demand
    b. precautionary demand
    c. speculative demand
    d. supply of money

46. Who would not be hurt by unanticipated inflation?
    a. those living on flexible income schemes
    b. those who expect a rise in future prices
    c. those who borrowed money at fixed interest rate
    d. those who lent money at a fixed interest rate

47. If an economy's output is below the potential output, demand-pull inflation may result in
    a. increasing price level and rising employment/output.
    b. falling real output and employment/output.
    c. increasing price level and falling employment/output.
    d. falling price level increasing employment/output.

48. Which of the following situations are most likely to result in 'demand p' inflation?

   a. A rise in investment of 5 per cent with a rise of productivity of 5 pe. cent.
   b. A fall in the rate of savings and the rate of taxation for an economy with a considerable amount of excess capacity
   c. A rise in the combined value of investment and government spending of 5 per cent with no change in productivity.
   d. Increases in the rate of savings and the rate of taxation.

49. The primary function of a foreign exchange market is to

   (a) transfer funds from one nation to another
   (b) provide short term credit to finance trade
   (c) provide the facilities for hedging
   (d) stabilise the economy

50. An increase in the cedi price of the British pound represents:

   a) Appreciation of the pound
   b) Depreciation of the pound
   c) Appreciation of the cedi
   d) Devaluation of the pound

SECTION B: OBJECTIVE TEST – 50 marks
Answer ANY TWO (2) questions in this section

Question 1

Suppose an economy has the aggregate demand curve

$$Y = 500 + 1.35G + 0.525(M/P) + D_d$$

Where D_d is an aggregate demand shock. Potential GDP (Y^*) = ¢1190 billion, government spending G = ¢200 billion, the money supply M = ¢800 billion.

a. Compute the multiplier associated with Fiscal Policy. *[2 Marks]*
b. Determine the multiplier associated with Monetary Policy. *[2 Marks]*
c. Starting at potential output with the price level (P) = 1 and inflation (π) = 0, and aggregate demand disturbance D_d = ¢200 billion occurs in the first year.
   i. Determine the short run impact of the aggregate demand disturbance (D_d) on aggregate demand (AD). *[4 Marks]*
   ii. At P = 1, in the face of the aggregate demand disturbance, what gap is prevalence in this economy? Explain *[3 Marks]*

d. Suppose a price adjustment schedule of

$$\pi = (Y - Y^*)/ Y^*$$

   i. Calculate the rate of inflation in the face of the aggregate demand disturbance. *[3 Marks]*
   ii. What is the current price level? *[3 Marks]*
   iii. What is the current equilibrium level of real GDP? *[4 Marks]*

e. In the absence of any macro policy, what will be the long run equilibrium price level and output? *[4 Marks]*

[Total: 25 Marks]

Question 2

a) With the aid of diagrams show that inflation whether dubbed as demand pull or cost push or structural inflation, the source of the inflation is excess demand for goods and services. **(15 marks)**

b) Explain these two terms
   i. Anticipated inflation and
   ii. Unanticipated inflation. (4 marks)

c) Distinguish between Adaptive Expectactions and Rational Expectations (6 marks)

(Total 25 marks)