Professor Willett
Spring 2012

Name________________________________

Econ 102 Optional Test II

Please answer 27 of the following 29 questions.

Unless otherwise specified, assume Keynesian models and that you are starting from initial full employment and balance of payments equilibrium.

1. In the classical model, what determines aggregate demand?

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2-3. In the Keynesian model how would an increase in government expenditures affect

2. the economy?

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3. And inventories:

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4. How, if any, would the magnitude of the effect on the economy differ if there were instead a tax cut of the same magnitude?

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5-6.

5. If there is a domestic investment boom in the short run how will this affect output relative to the level of full employment output?

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6. Over time how would this affect the short run aggregate supply curve (SRAS)?

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7 – 10.

7. Define the IS curve.

8. How would a large increase in oil prices affect the SRAS curve?

9. With no change in the AD curve what would this do to the level of employment and output in the economy?

10. How, if any, could fiscal policy be adjusted to get back to full employment?

11-12.

11. What is the shape of the IS curve?

12. Explain why.

13-14: How do the following factors cause a shift, if any, in the LM curve

13. An increase in the money supply?

14. An increase in income?

15. If the money supply were kept growing at a constant rate, what would happen to interest rates during the Christmas season?

16-17. Use an ISLM diagram to show whether a fall in investment would cause a bigger fall in Y if the money supply were kept constant or the interest rate were kept constant.(2 pts)

18. Explain whether there is a money supply response that would be better than either of these in reducing unemployment?

19. What assumption do “supply siders” make about the relationship between tax rates and government revenues?

20. How, if any, could a combination of government expenditure cuts and tax increases in Greece increase the Greek budget deficit?

21. How, if any, would the government expenditure multiplier be affected by whether the Fed keeps interest rates or the money supply constant?

23-26.

22. What did Keynesian economists conclude that the Great Depression showed about the effectiveness of monetary policy?

23. Why?

24. What did monetarists conclude?

25. Why?

26. What is the liquidity trap?

27. Can you give an example of when this has actually occurred?

28. In such circumstances monetary policies becomes

a. More
b. Less
c. No difference

powerful relative to fiscal policy.

29. If the nominal interest rate is 1% and there is deflation of 5% what is the real interest rate?