

## ECO 103, Winter 2015, Final Exam

**Name:**

**Instructions:** Answer all parts of all questions. You have 80 minutes to complete the exam. This exam is open note. You are welcome to use any written materials that you might find helpful. Calculators, but no other electronic devices, are allowed. Here are some things to keep in mind.

- i. Explain all of your answers. Unsupported answers will receive little or no credit.
- ii. On true/false questions, I only care about the quality of your explanation. Simply writing “true” or “false” will yield no credit.
- iii. Avoid extensive irrelevance, this will also cost you points. Your goal should be to provide clear and concise explanations.
- iv. It is more important to demonstrate that you understand the correct method. Minor math errors will result in only minor deductions.
- v. All parts of all questions are worth the same amount.
- vi. Many questions ask you about a deviation from something that we did in class. If you simply copy down what we did in class, I will award no credit.

1. Comparative Questions.

a. Which is a better model of output, the Solow Model or the AS/AD Model?

b. What do you think was the worst assumption that we made in class all semester?

c. True or False? Because Quantitative Easing probably increased output, it also probably increased social welfare.

## 2. Monetary Policy

For  $a$  and  $b$  assume that inflation is initially at its target and that the Central Bank wants to keep it there.

a. Suppose energy prices decrease. What must the Central Bank do to keep inflation at its target?

b. Suppose government spending increases. What must the Central Bank do to keep inflation at its target?

c. True or False? Announcements of future monetary policy can affect current interest rates?

d. True or False? Open market sales decrease both bond prices and interest rates.

### 3. The AS/AD Model

From 2007-2009, output fell in the United States.

a. What could have happened to energy prices to cause such a decline in output? Your answer should include a graph.

b. What could have happened to asset prices to cause such a decline in output? Your answer should include a graph.

c. Which explanation (from *a* and *b*) is more consistent with the macroeconomic data.

d. Suppose that, at the same time, energy prices and government spending both increase. What are the effects on the output gap and inflation?

#### 4. Fiscal Policy

a. Suppose that the AS curve is vertical. What is the tax multiplier equal to?

b. True or False? The U.S. national debt is over 100% of GDP.

c. Suppose that we assume that as prices increase, so do exports. Will this additional assumption cause the government spending multiplier to become smaller or larger?

d. How do low levels of government debt affect interest rates?

## 5. The Great Recession

a. How did the crisis in the housing market come to adversely affect firms that do not directly participate in that market (*e.g.* Investment banks, automakers, etc.)

b. Was “crowding out” a major problem during the Great Recession?

c. Make a sound economic argument that the American Recovery and Reinvestment Act of 2009 (fiscal stimulus) was either good or bad policy. [Note: I don't care which position you take, I only care about the quality of your argument.]

d. What were the “troubled assets” purchased by the Treasury Department following the financial panic?