LONDON METROPOLITAN BUSINESS SCHOOL

LONDON metropolitan university

EXAMINATION QUESTION PAPER Reassessment,ESIT 20123/132014

Module code:	**EC5004**
Module title:	**MACROECONOMICS**
Module leader:	**Silvia Dal Bianco and Tony Conibear**

Date:	*July/August 2014*
Day / evening:	**DAY**
Start time:	
Duration:	**3 HOURS**

Exam type:	**Part Seen/ Part Unseen exam, Closed**
Materials supplied:	**None**
Materials permitted:	**Language dictionaries. Non programmable calculators and writing implements.**
Warning:	**Candidates are warned that possession of unauthorised materials in an examination is a serious assessment offence.**

Instructions to candidates:
Section A is SEEN and Candidates will be required to should answer ONE question only.

Section B is UNSEEN and Candidates should will be required to answer ANY THREE questions.

All questions carry equal marks.

Section A   Answer ONE Question ONLY

Question 1

What is the effect of Fiscal Policy on Economic Growth? What is the evidence from OECD countries?   (25 marks)

Question 2

'The Aggregate Supply curve is upward sloping but only in the short-term.'
 Examine this view and consider its importance for demand management policy.
                                                            (25 marks)

Section B   Answer ANY THREE Questions

Question 3

This question has three parts:

(a) Define the following terms:

   i.   Research and Development (2 marks)

   ii.   Patents. (2 marks)

   iii. Solow Residual. (2 marks)

(b) Suppose that the economy's production function is $Y \square \sqrt{K} \sqrt{AN}$.

   Given that the saving rate, s, is equal to 16%, and that the rate of depreciation

   rate δ, is equal to 10%. Furthermore the number of workers grows at 2% per

   year and that the rate of technological progress is 4% per year.

   Using the above information, obtain the following:

        i.   Steady-State capital stock per effective worker (7 marks)

        ii.   Output per effective worker (7 marks).

(c) Provide a definition of Balanced Growth.   (5 marks)

Question 4

This question has four parts:

  (a) Define each of the following terms: (i) model (ii) exogenous variable (iii) endogenous variable (iv) private saving (v) public saving. (5 marks)

  (b) Considering the model that describes the equilibrium in the goods market, give an example of an exogenous variable and an endogenous variable. (4 marks)

  (c) In the model of the 'Keynesian Cross', explain the effects of an increase in public expenditure on equilibrium output. (8 marks)

  (d) Derive the equilibrium output using the Investment-Savings approach (8 marks)

Question 5
This question has four parts:

  (a) Define the equilibrium condition in the money market (2 marks)

  (b) Using an appropriate diagram explain what would happen to the equilibrium in the money market if households' income increased. (5 marks)

  (c) Explain the effect of expansionary Open Market Operations on money demand and money supply and on the equilibrium interest rate. (8 marks)

  (d) Represent graphically the new equilibrium resulting from the change in economic circumstances at point b) and describe the adjustment mechanism with words.(10 marks)

Question 6
This question has two parts:

  (a) With reference to the labour market explain how the Wage Setting function and Price Setting functions are derived.   (12 marks)

  (b) In recent years the natural rate of unemployment in the UK has fallen. Use the model derived above to explain why this may have occurred.

                                                                   (13 marks)

Question 7

This question has four parts:

Consider an open economy which operates under a fixed exchange rate regime with all other countries.

  a) What happens to the country's nominal exchange rate if there is an increase in the demand for domestic money? (6 marks)

b) Do you agree with the following statement: "*Under fixed exchange rates, the central bank gives up monetary policy as a policy instrument*". Motivate your answer. (6 marks)

c) Suppose that the government of the country increases the public spending on infrastructure. Is that a fiscal or a monetary policy? Expansionary or contractionary? (3 marks)

d) Employing the IS-LM framework, represent graphically the new equilibrium resulting from the economic policy at point c) and describe the adjustment mechanism with words. (10 marks)

Question 8

This question has two parts:

Given that $Y = Y_n$ and $P = P^e$, using the AD/AS model. Analyse with the aid of appropriate graphs, the effect in the short-run and the medium run of each of the following:

(a) A negative supply-side shock caused by a natural disaster. (12 marks)

(b) A policy of fiscal expansion. (13 marks)

Question 9

This question has three parts:

a) With the aid of an equation state and explain Okun's Law. (7 marks)

b) Given that Okun's Law holds, explain how unemployment will vary over the course of the business cycle. (8 marks)

c) In the recent recession in the UK unemployment did not rise in line with Okun's Law. How might this be explained? (10 marks)

End of paper