

## ECON 312 - Sample Exam Questions II

Exam #2 will be given on Monday, October 27. It will cover the material in chapters 6, 7, and 8. The equation sheet will contain all equations from chapters 1-8 in the textbook.

### 1 True, False or Uncertain

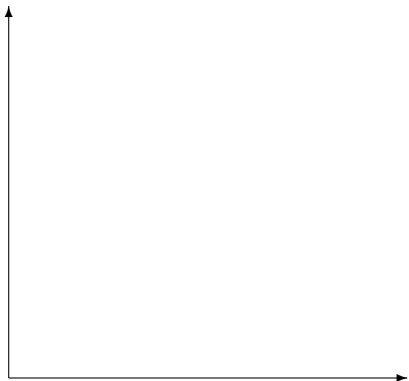
Answer each of the following questions either true, false, or uncertain and explain your answer. The *explanation* is the most important part of your answer.

*Note: The first section of the exam will consist of several “true, false, or uncertain” questions. These are short answer questions where you must explain why a statement is either true or false, or alternatively explain why the statement may be either true or false, depending on the circumstances. For some of these questions, you will need to draw a graph and explain the graph.*

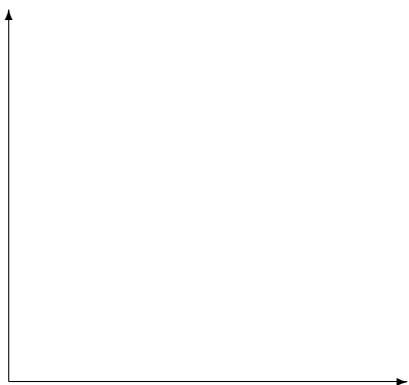
1. Suppose that a small open economy is operating in a fixed exchange rate system. In this economy, fiscal policy is ineffective



2. Suppose the demand for US produced goods in the EU decreases. This change in demand will lead the dollar to depreciate against the euro.



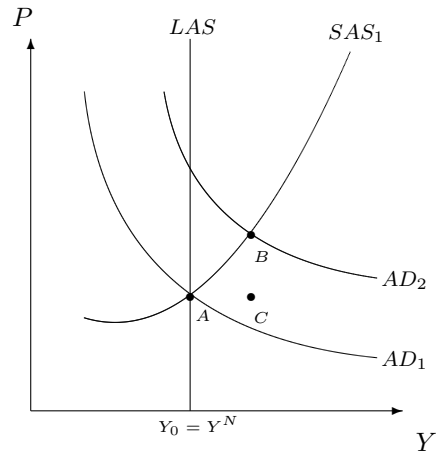
3. Contractionary monetary policy shifts the AD curve to the right.



4. According to the SP curve, as actual real GDP increases above natural real GDP, the inflation rate remains unchanged.



5. For this Aggregate Demand - Aggregate Supply model, point  $A$  is a short-run equilibrium point, point  $B$  is a long-run equilibrium point and point  $C$  is neither.



6. The difference between a small open economy and a large open economy is that that BP curve for a small open economy is horizontal and the BP curve for a large open economy slopes down.

## 2 Analysis

Answer the following questions in the space provided.

*Note: The second section of the exam will consist of several “analysis” questions. These are longer, perhaps multiple part questions where you must apply or explain a model we covered in class to some situation. For most of these questions, you will need to draw graphs and explain the graphs; you may also need to explain or manipulate the equations that make up the models to answer these questions.*

7. The following question examines the macroeconomic economic conditions in a hypothetical economy, Econoland. In each part, use the macroeconomic models covered in class to describe Econoland’s economy. Suppose that Econoland is initially in a long-run equilibrium state characterized by the following values:  $E_o \equiv [Y_o, r_o, P_o, N_o, W_o, Y^N]$ 
  - 7.a Suppose that a positive shock hits autonomous planned investment. Autonomous planned investment increases from  $I_p$  to  $I'_p$ . Show the effects of this shock on interest rates and real GDP.
  - 7.b Show the effects of this shock on the aggregate price level, the real wage, and aggregate employment. Describe what happened to the unemployment rate in Econoland.

7.c Following this shock to investment, is the economy in long-run equilibrium in Econoland? Explain your answer.

7.d Suppose that the economic decision makers in Econoland take no action following this shock to investment. Show what happens to  $Y, r, P, W$  in the future.