

Intermediate Macroeconomics

ECON 302

Sample Final Exam

Professor Yamin Ahmad

Instructions:

This paper is divided into two sections. You should attempt 3 short questions from Section A and 1 long question from Section B. Section A has a weight of 45% (15% weight per question); Section B has a weight of 55%.

Please be **concise** in your answers. **Answer ONLY what the question asks**, as points are not awarded for verbosity! You should limit your answers to each question in section A to 1 side of a US letter sized paper. For most questions, you should find that you are able to answer the questions with a short paragraph. For essay questions in section B, please limit your answer to 3 sides (US Letter sized paper).

In terms of a general hint to try and maximize points, *try to relate the context of the questions to any of the models that we have studied in lectures*. Where appropriate, use graphs and equations to help elucidate your answer! You may use the lecture notes and the textbook. Please sign the agreement below before turning in the exam.

Agreement: All of the work on this exam has been done independently, without consulting any other students in this class or faculty in other classes. As presented in class, the essays may be done with a referral to formulae, but all of the written material in the essay is original, “synthetic” independent work, with no copying of published or unpublished material. I attest that this exam has not been copied or distributed in any part or form.

Name: _____; Student Id#: _____

Signature: _____; Date: _____

Section A - Short Questions [15 points each]

Answer **THREE** of the following five questions. Provide brief, clear answers along with your reasoning. Marks are awarded for the clarity and specificity of your arguments in each of the questions. Relate the context of the questions to any of the models you have studied in the lectures, using graphs and equations to elucidate your answers as necessary. [Hint: To increase your marks, reread the question along with your answer to see if you have answered what the question has asked.]

1. What are “menu costs” and why might they be important?
2. What does Sargent and Wallace’s “Policy Ineffectiveness Proposition” state? What are the crucial assumptions which lead to this proposition holding? What is needed to break the proposition?
3. In short-run IS-LM analysis, an increase in the marginal propensity to consume increases income. In models of long-run stationary states, a decrease in the savings ratio reduces income. Is there a contradiction?
4. Consider a small open economy with a flexible exchange rate and perfect international capital mobility. What is the effect of an increase in the foreign interest rate on both the level and composition of output in (a) the short run (b) the long run?
5. How is output divided between capital and labor in the Neoclassical Theory of Distribution? Illustrate in the case of a Cobb-Douglas technology.

Section B - Long Questions [55 points]

Answer **ONE** of the following two questions. Marks are awarded for **clarity** and **specificity** of your answers as well as how you **communicate** the thesis of your argument. Be sure to relate the context to any applicable models you have studied in lectures. Use graphs and equations to elucidate your answers as necessary.

6. Does the fact that exchange rates are volatile imply that foreign exchange markets are inefficient? Illustrate your answer by developing a model in which changes in monetary policy can lead to “excessively” large movements in exchange rates.

7. The aim of every government should be to try and achieve zero inflation. Discuss.