

ECO403 Macroeconomics

Final Term Examination – Spring 2005

Time Allowed: 150 Minutes

INSTRUCTIONS:

All questions are compulsory.

This exam consists of **5** Multiple Choice Questions (MCQ's) and **5** descriptive questions.

Each MCQ carries 2 Marks each and Descriptive Questions carry **10** Marks each.

You should try to complete MCQ's in 10 - 15 minutes in order to give yourself 135 - 140 minutes for descriptive questions.

For each MCQ question, read the choices available and select the choice which you consider is the correct answer, by clicking on the appropriate check box.

Save your answer before proceeding to the next question.

Do not click the "**Finish button**" while solving your paper. Once you clicked the "Finish" button, you will not be able to access your paper again. Click it at the end of your paper. That means you have submitted your complete paper.

A clock is given in the exam software. Software will automatically be closed at the end of 90 minutes.

Remember not to spend too much time on any one MCQ. Since all MCQ's carry equal marks, it is important to manage your time and responses to test questions effectively.

Failure to comply with the Supervisor's directions will result in your test being cancelled. Please comply with supervisor's directions to avoid any unpleasant event.

Total Marks: 60

Total Questions: 10

Question No. 1

Marks : 02

Which of the following is neither a determinant of the slope of the IS curve nor a determinant of the slope of the LM curve?

- ☐ the sensitivity of interest rates to investment
- ☐ the sensitivity of money demand to income
- ☐ the sensitivity of money demand to interest rates
- ☐ the sensitivity of income to investment

Question No. 2

Marks : 10

Why is frictional unemployment not necessarily harmful?

Question No. 3

Marks : 10

How do we know that calculating GDP by the expenditure approach yields the same answer as calculating GDP by the income approach?

Question No. 4

Marks : 02

The increase in base money divided by the corresponding induced increase in commercial bank deposits is the:

- ☐ bank's line of credit.
- ☐ reserve ratio.
- ☐ current ratio.
- ☐ money multiplier.

Question No. 5

Marks : 02

Aggregate supply is the total amount:

- ☐ of goods and services produced in an economy.
- ☐ produced by the government.
- ☐ of products produced by a given industry.
- ☐ of labor supplied by all households.

Question No. 6

Marks : 10

Why M2 is sometimes a more stable measures of money than M1.expalin your own words using the definition of M1 and M2.

Question No. 7

Marks : 02

A bank has excess liquidity reserves to lend but is unable to find a willing borrower. This will _____ the size of the money multiplier.

- ☐ Reduce
- ☐ Increase
- ☐ have no effect on
- ☐ double

Question No. 8

Marks : 02

The intersection of the IS and LM curves captures:

- ☐ the equilibrium of the demand and supply sides of the economy
- ☐ the equivalence of monetary and fiscal policy
- ☐ joint equilibrium in the goods and money markets
- ☐ all of the other options

Question No. 9

Marks : 10

Whenever inflation occurs, which segment of the society is badly affected?

Question No. 10

Marks : 02

What are the major functions of the Federal Reserve? Do you think that any of these functions could be performed by private banks, or is the central bank the only agent capable of filling these roles? Explain.
