

PRINT YOUR NAME _____

SAMPLE EXAM N2 QUESTIONS

ECON 231

TRUE-FALSE (1.5 points each). Circle your answer.

1. An increase in the price level causes the Aggregate Supply curve to shift.

TRUE

FALSE

2. Workers in a nearby pizza restaurant may indirectly enjoy income increases from a nearby construction process.

TRUE

FALSE

MULTIPLE CHOICE (3 points each). Circle your answer.

3. If aggregate quantity supplied exceeds aggregate quantity demanded, we can expect an/a

- a. decrease of inventories, causing firms to raise prices.
- b. decrease of inventories, causing firms to lower prices.
- c. increase of inventories, causing firms to raise prices.
- d. increase of inventories, causing firms to lower prices.

4. If income in Austria decreases by 20 million euros and consumption decreases by 10 million euros, then the MPC equals

- a. .9
- b. .5
- c. -.6
- d. -.3

5. Because of the recent corporate downsizing, Chuck loses his job. The most likely effect on his consumption function is a(n)

- a. movement upward along the function.
- b. shift upward of the function.
- c. shift downward of the function.
- d. movement downward along the function.

6. If the MPC is 0.6, then the multiplier is

- a. 4.00
- b. 5.00
- c. 2.5
- d. 1.66

7. If the U.S. dollar gets stronger (appreciates) comparing to all other currencies, then we should expect that U.S. exports to other countries will
- increase
 - decrease
 - remain the same
 - be converted into the U.S. government expenditure

SHORT ESSAYS

8. (3 points)

Draw the Consumption Function in the Real Expenditure – GDP space, labeling all lines properly, **to show on the graph** what happens to the Consumption Function if income taxes (variable taxes) were

- removed from the model.
- added to the model

9. (10 points)

Derive the Aggregate Demand curve using the Income-Expenditure Diagram and the Aggregate Demand – Aggregate Supply Diagram. **Label all lines and curves properly.**
Give a short explanation of the derivation.

10. (10 points)

Using the Income-Expenditure Diagram and the Aggregate Demand – Aggregate Supply Diagram:

- show a recessionary gap
- show and explain** how *producers* can close the gap

Label all lines and curves properly.

11. (10 points)

Using the Income-Expenditure Diagram and the Aggregate Demand – Aggregate Supply Diagram:

- show an inflationary gap
- show and explain** how *producers* can close the gap

Label all lines and curves properly.

12. (10 points)

Show and explain how a *contractionary fiscal* policy works. You need to use the Income-Expenditure Diagram and the AD-AS Diagram.
Label all lines and curves properly.

13. (10 points)

Show and explain how an *expansionary fiscal* policy works. You need to use the Income-Expenditure Diagram and the AD-AS Diagram.

Label all lines and curves properly.

14. (5 points). Show all your calculations.

a) Find the equilibrium level of GDP in an economy in which Investment Expenditure is \$300, Net Exports are -\$50, Government Expenditure is \$400, and Taxes are \$400. The Consumer Expenditure is described by the following equation:

$$C = 150 + 0.75DI$$

b) What will happen to the equilibrium level of GDP (show new calculations) if investors become more optimistic about the country's future and raise their investments to \$400?

c) What can you say about the multiplier in this example?