***ECONOMICS 203***

***FINAL EXAM – Fall 2011***

***(If you need more space to answer a question – use the back of the page, but be SURE to indicate that you have done so on the front)***

(Point values in parentheses)

1-5 were Micro in 2011

(10) 6. (11.2.10) Identify and explain the three different kinds of unemployment.

(5) 7. (12. 2.5) Identify the six components of Aggregate Expenditure.

(10) 8. (12.3.9) Explain what “to heat up” means in the macro economy and explain what causes this to occur.

(10) 9. (13.3.9, 12) NYT 25 Nov. 2011: “The value of the rupee has fallen nearly 14 percent … against the dollar, since the end of August …, [it] has been falling sharply since June….”

Show what this would look like on an appropriately labeled graph in which the dollar is the commodity priced in Rupees (use an R for rupees). Give one example of a situation that could cause the rupee to fall.

(20) 10. (17.2.8) The U.S. budget deficit is very large. Using an appropriate graph, describe and explain how, *ceteris paribus*, significant government borrowing can affect the level of private investment. *Ceteris paribus*, how might this affect the exchange rate and in turn the trade position (X-M)?

(20) 11. “Press Release, Release Date: November 2, 2011

“Information received since the Federal Open Market Committee met in September indicates that economic growth strengthened somewhat in the third quarter . … Inflation appears to have moderated since earlier in the year ….

“… The Committee continues to expect a moderate pace of economic growth over coming quarters and consequently anticipates that the unemployment rate will decline only gradually toward levels that the Committee judges to be consistent with its dual mandate. Moreover, there are significant downside risks to the economic outlook, including strains in global financial markets. The Committee also anticipates that inflation will settle, over coming quarters …. However, the Committee will continue to pay close attention to the evolution of inflation and inflation expectations. …

a. Identify the number of voting members on the FOMC.

b. Identify the term for the primary method the FOMC uses in order to implement Monetary Policy.

c. Identify the primary variable which the FOMC targets in order to implement its Monetary Policy.

d. Identify the current level, approximately, of this variable identified in part c.

e. Explain, step by step using appropriate graphs, how this policy has been implemented from initial step to its effect on AD.

f. Explain why the FOMC felt it was important to note that “The Committee also anticipates that inflation will settle, over coming quarters, at levels at or below those consistent with the Committee's dual mandate …..”

(20) 12. (17.2.15) Using appropriate graphs describe and explain, *ceteris paribus*, the non-interventionist's argument that interventionist fiscal policy is not necessary when there is demand deficient unemployment. (No need to explain any problem intervention might cause.)

(25) 13. “Others Skimp While China's Coffers Swell” By Didi Kirsten Tatlow, *NYT*, November 2, 2011

“BEIJING — [A] bill passed recently by the U.S. Senate … aims to label China a currency manipulator. …

“For nearly a decade, the value of the renminbi has been the subject of increasingly acrimonious debate on Capitol Hill, a source of frustration for China’s trading partners …..

“China is a political scapegoat,” said Xiang Songzuo, deputy director of the Center for International Monetary Research at Renmin University of China and a former official at China’s central bank, the People’s Bank of China. Other governments, he said, ‘have to find some excuses for their own incompetence in managing their own economy and country.’”

a. Identify what China has been doing to its currency.

b. Explain how China has implemented this currency policy.

c. Explain why China has been pursuing this policy.

d. Identify the name of the tradition in political economy that advocates using policies like this one to “win” in the international trade game.

e. Identify the term used to label policies that a nation adopts to guard its domestic producers from international competition.

f. Xiang Songzuo cites other governments “incompetence in managing their own economy” as the source of the problem: To what incompetent U.S. policy is he referring? Explain the connection between this U.S. policy and the China currency policy.

(20) 14**. “**Low Expectations, and Trepidation, Over Meeting a Debt Deadline.” *NYT* By Shaila Dewan and Julie Creswell, November 17, 2011: “Consumer confidence, which collapsed under the threat of a government default this summer, has just begun to convalesce.” In other words, according to this article, consumer confidence is improving.

a. Write out and name the equation that represents the sources of consumption in the aggregate economy.

b. Identify and explain each letter in that equation.

c. Identify, approximately, the percentage of Aggregate Demand that consumption represents in the U.S. aggregate economy.

d. Using the equation from part “a”, explain how rising consumer confidence can lead to a rise in consumption.

e. Explain with an appropriate graph the effect, *ceteris paribus*, of such a rise in consumption on real GDP and unemployment?

(10) 15. Some people believe that the European Central Bank (ECB) should print Euros and buy the bonds of countries like Greece and Italy in order to keep bond prices up and interest rates low thereby making it easier for those countries to borrow and reducing the threat that they will default. Others fear that such a bailout policy would encourage more of the same behavior by these countries that brought them to the brink of (so close to) default, and they fear that doing this could also generate a serious macroeconomic problem to which Germany is especially sensitive.

1. What is the behavior that brought these countries to the brink of (so close to) default?
2. What is the term for the perverse/unfortunate incentive created when a country (or person) is bailed out from the negative consequences of its behavior?
3. What is the macroeconomic problem do some fear that the ECB printing euros to buy up bonds could cause?

I understand the general standards of academic integrity established by Syracuse University and those specific standards laid out in Professor Evensky’s syllabus. My work on this exam meets those high standards of academic integrity.

Signed:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_