Wilfrid W. Csaplar Jr., Ph.D.   Economics 350   Exam #4   2008/12/03

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. The Excel file will be handed in via Moodle. Your name will only appear on a page of the file that has nothing else on it. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 170 points) and is scheduled to take 50 minutes (but you can take the full 2 hours.) Therefore, expect to spend 1 minute for every 2 points. For example, a 10-point question should take 5 minutes.

1) (8 points) Answer EITHER Part A OR Part B.
A) Why is an independent central bank important?
B) What is the economic reason for keeping most taxes as low as possible?

2) (16 points) Answer EITHER Part A OR Part B.
A) Use the balance sheet to the right to determine the excess reserves of the bank. How much would the money supply increase if the bank loaned out all of its excess reserves? How much would the money supply increase if the money multiplier went to its fullest extent? Assume banks no excess reserves and the currency-deposit ratio is 20%. Show all work and briefly explain how you did the calculations.

Assets		Liabilities & Net Worth	
Deposits at Fed	20	Checking Dep.	100
Cash	5	Savings Dep.	50
Loans	150	Other	10
Other	25	Equity	40

B) What are the lags in monetary policy? Are they longer for fiscal or monetary policy? Explain your logic.

3) (16 points) Answer EITHER Part A OR Part B.
A) Use the real money supply/real money demand diagram to prove that a central bank who is controlling the money supply, loses control of the interest rates. Explain the economic logic referring to your graph.
B) Illustrate on the IS/LM/FE diagram an increase in the required reserve ratio. Explain why the curve(s) moved as drawn.

4) (20 points) Answer EITHER Part A OR Part B.
A) Suppose that the following equations describe the economy: G = 250, TR = 300 - 0.2Y, INT = 100, and T = 0.4Y. If GDP is 1000 and the full employment level of GDP is 1200, then what are the budget deficit/surplus, the primary budget deficit/surplus, and the full employment deficit/surplus? Show all work. Is this government doing good fiscal policy? Explain your logic.
B) Why do we calculate three different government deficits/surpluses? What information does each one tell us? Why is that information important?

5) (40 points) Use Sheet "Exam 4" on the Excel file, Exam4.xls to answer this question. The dates refer to the first month of the two-month periods. Find the seasonally adjusted value of sales for all dates you have values for. If the annual sales 2010 were 2000, then what would you expect sales to have been in the two-month period starting July of 2010? Forecast the sales through the quarter starting March 2009. Show all calculations on the spreadsheet.