Wilfrid W. Csaplar Jr., Ph.D. Economics 302 Exam #4 2008/4/30

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 160 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I cannot give extra time because some students have a class after your class.

1) (10 points) Answer EITHER Part A OR Part B.

A) Explain the MS/P and Y parts of this equation for the LM curve. $r = \alpha_{LM} - \left(\frac{1}{\ell_r}\right)\left(\frac{MS}{P}\right) + \beta_{LM}Y$

B) Explain the Y in the IS equation. $r = \alpha_{IS} - \beta_{IS}Y$. Why might it be better to write it as Y=f(r)?

2) (10 points) Explain why EITHER the *AD Curve* OR the *LRAS Curve* takes it shape.

3) (12 points) For EITHER *stock prices* OR *inflation*, determine if they variable is pro-cyclical, counter-cyclical, or acyclical. Determine if it is a leading, roughly coincident, or lagging variable. Explain your logic for both parts.

4) (20 points) Answer EITHER Part A OR Part B.

A) Use the REAL MS/MD diagram to explain the neutrality of money.

B) Draw the SRAS/LRAS/AD diagram with high unemployment. Explain how the economy would correct itself if it was left alone.

5) (48 points) Answer EITHER Part A OR Part B.

A) Draw the IS/LM/FE, LRAS/SRAS/AD, and REAL MS/MD diagrams. Start in equilibrium in all markets. Illustrate the short-run effects of an increase in the <u>marginal propensity to consume</u> on all three diagrams. Explain why the curve(s) moved as drawn. What happens to the equilibrium values of the interest rates, price level, and GDP?

B) Draw the IS/LM/FE, LRAS/SRAS/AD, and REAL MS/MD diagrams. Start in equilibrium in all markets. Illustrate the short-run effects of an increase in the <u>future marginal productivity of capital</u> on all three diagrams. Explain why the curve(s) moved as drawn. What happens to the equilibrium values of the interest rates, price level, and GDP?