Wilfrid W. Csaplar Jr., Ph.D. Economics 302 Exam #4 Make Up 2009/05/01

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) (8 points) Answer EITHER Part OR Part B.
A) Does a change in the price level cause a movement of the real money supply curve or the real money demand curve? Explain why it does not move the other curve.
B) Why doesn't investment cause the FE curve to move now?

2) (10 points) Answer EITHER part A OR Part B.
A) Explain why the AD curve slopes down.
B) Explain why the MD/P curve slopes down.

3) (14 points)Explain EITHER the equation in Part A OR the equation in Part B.
A) $M^d/P = \ell_0 + \ell_Y Y - \ell_r(r+\pi^e)$. Do not worry about the three ℓ or their subscripts.
B) Only worry about the MS, P, and Y.

$$r = \alpha_{LM} - \left(\frac{1}{\ell_r}\right)\left(\frac{MS}{P}\right) + \beta_{LM}Y$$

4) (20 points) Answer EITHER Part A OR Part B.
A) Draw the IS/LM/FE diagram for an economy in a recessionary gap. Explain how you know the graph shows a recessionary gap. Illustrate how the curve(s) will move if the economy is left alone. Explain why the curve(s) moved as drawn.
B) Use the LRAS/SRAS/AD diagram to explain the *neutrality of money*. Make sure you define *neutrality of money*.

5) (48 points) Answer EITHER Part A OR Part B.
A) Draw the IS/LM/FE diagram, real MS/real MD, and LRAS/SRAS/AD diagram. Illustrate the effects of an increase in the value of the dollar on the foreign exchange market. Explain why the curves moved as drawn. What happens to the price level, real interest rate, and GDP? Show only the short-run effects.
B) Draw the IS/LM/FE diagram, real MS/real MD, and LRAS/SRAS/AD diagram. Illustrate the results of the Federal Reserve's raising the required reserve ratio. Explain why the curves moved as drawn. What happens to the price level, real interest rate, and GDP? Show only the short-run effects.