

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 150 points (to be scaled up to 210 points) and is scheduled to take 75 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I can give some extra time but not much.

- 1) (10 points) Explain EITHER the equation for the IS Curve given by $r = f(Y)$, OR the equation for the IS Curve given by $Y=f(r)$ OR the equation for the LM Curve given by $r = f(Y)$. Make sure you state which equation you are explaining.
- 2) (12 points) For EITHER liquidity of non-money assets increases OR real GDP increases, explain how it affects the real money demand and why it has that effect.
- 3) (14 points) For EITHER residential fixed investment OR stock prices determine if it is procyclical, acyclical, or countercyclical. Explain your logic. Is it leading, lagging, or roughly coincident? Explain your logic.
- 4) (16 points) Answer EITHER Part A OR Part B.
 - A) When we moved the money around, M1 changed but M2 did not normally change. Why didn't M2 change in most cases? Give an example when it does change and explain why it does change.
 - B) The Federal Reserve has created a category M1Z. It is M1 plus the parts of M2 which have zero maturity (hence the Z). That means accounts you can get money out of immediately. What is one part of M2 which you think would be in M1Z? Explain why you think that. Would you expect M1Z's velocity to be nearly as stable as M2's velocity or nearly as unstable as M1's velocity? Explain your logic.
- 5) (18 points) Answer EITHER Part A OR Part B.
 - A) Use the quantity theory of money to explain why some economists feel the only impact of an increase in the money supply on the economy is to increase inflation. Do you think this is a valid conclusion most of the time? Explain your logic.
 - B) Draw the real MS/real MD diagram. Illustrate the effects of the Fed's buying bonds. Explain why the curve(s) moved as drawn. What happens to the interest rate and the money supply?
- 6) (18 points) Draw the IS/LM/FE graph. Illustrate the effects of EITHER the event in Part A OR the event in Part B. Explain why the curve(s) moved as drawn. What happens to the interest rates and real GDP?
 - A) People think that the economy will go down in the future.
 - B) The future marginal productivity of capital increases.
- 7) (18 points) Draw the LRAS/SRAS/AD diagram for a firm in a recessionary gap. Illustrate the effects of EITHER the event in Part A OR the event in Part B. Explain why the curve(s) moved as drawn. What happens to the price level and real GDP?
 - A) The government decides to do nothing.
 - B) The government does counter-cyclical fiscal policy. (Assume Ricardian Equivalence does not hold.)
- 8) (44 points) Draw the LRAS/SRAS/AD, IS/LM/FE, and real MS/real MD diagrams. Illustrate the effects of EITHER the event in Part A OR the event in Part B on all three graphs. Use the same event for all three graphs. Explain why the curves moved as drawn. What happens to the price level, interest rates and real GDP?
 - A) An improvement in technology.
 - B) An increase in capital.

Course evaluations will probably be coming out next week. Remember to fill them out.