Wilfrid W. Csaplar Jr., Ph.D. Economics 302 Exam #4 2004/04/23

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 14-point question should take 7 minutes. Because of the class that follows your class, I cannot give you extra time.

1) (10 points) Answer EITHER Part A OR Part B.
A) Explain why the BP curve slopes upward.
B) If the current market exchange rate is $1.5/£ and tomorrow it becomes £0.5/$, then did the dollar appreciate, depreciate, revalue, or devalue? Briefly explain your logic.

2) (12 points) Answer EITHER Part A OR Part B.
A) What are the costs of a high, but fully anticipated inflation rate? Explain your logic.
B) When would borrowers be hurt by a change of inflation? Explain how they are hurt.

3) (14 points) Explain EITHER the equation in Part A OR the equation in Part B.
A) $M = f(FX_P, Y)$
B) $FX_P = F(P, i_d)$

4) (16 points) Illustrate EITHER the event in Part A OR the event in Part B on the supply and demand for the British Pound (£). Explain the movement(s) of the curve(s). Is the British Pound appreciating or depreciating? Explain your logic.
A) Prices in England increase.
B) Our GDP falls.

5) (24 points) Answer EITHER Part A OR Part B.
A) Illustrate an increase in the productivity of labor on both the SRAS/LRAS/AD diagram and the Phillips Curve diagram. Explain the movement(s) of the curve(s).
B) Illustrate a demand pull inflation on both the SRAS/LRAS/AD diagram and the Phillips Curve diagram. Explain the movement(s) of the curve(s).

6) (24 points) Illustrate EITHER the event in Part A OR the event in Part B on the IS/LM/BP graph with a fixed exchange rate and a flat BP curve. Explain why the curve(s) moved as drawn. Make sure the economy starts and ends with all three markets in equilibrium.
A) The government increases spending.
B) The Federal Reserve increases the money supply.