Wilfrid W. Csaplar Jr., Ph.D.   Economics 302   Exam #4   2021/4/21

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 can give some extra time.

1) (12 points) Explain EITHER the one equation in Part A OR the two equations in Part B.
A) $M^d/P = f(y, r, \pi^e)$
B) LM: $r = f(Y)$ and IS: (either $r = f(Y)$ or $Y = f(P)$.)

2) (12 points) Answer EITHER Part A OR Part B.
A) Why has the velocity of money become very unstable over the past few decades? Explain your logic.
B) Why is increased inflation the only long-run impact of an increase in the money supply? Explain your logic.

3) (12 points) For EITHER *average duration of unemployment* OR *new building permits* determine if it is procyclical, countercyclical, or acyclical. Explain your logic. Is it leading, lagging, or roughly coincident? Explain your logic.

4) (18 points) Answer EITHER Part A OR Part B.
A) Use the IS/LM/FE diagram to explain the neutrality of money.
B) Draw the LRAS/SRAS/AD diagram. Illustrate the effect of an improvement in technology. Explain why the curve(s) moved as drawn. What happens to inflation, real GDP, and the unemployment rate? Briefly state how you reached each conclusion.

5) (46 points) Answer EITHER Part A OR Part B.
A) Draw the real MS/MD diagram, IS/LM/FE diagram, and the LRAS/SRAS/AD diagram. Illustrate the effects of the Fed's increasing the discount rate. Explain why the curves moves as drawn. What happens to the real money supply, real interest rates, real GDP, inflation, and unemployment?
B) Draw the real MS/MD diagram, IS/LM/FE diagram, and the LRAS/SRAS/AD diagram. Illustrate the effects of the recent tax cuts. Explain why the curves moves as drawn. What happens to the real money supply, real interest rates, real GDP, inflation, and unemployment?