**Chapter 23/24**

1. In country XYZ citizens spend all income on 3 type of goods A, B and C . In 2010, they buy 100 pieces of A for $200, 50 pieces of B for $75, and 500 pieces of C for $50. In 2011, they buy 75 pieces of A for $225, 80 pieces of B for $120, and 500 pieces of C for $100.
2. For each year calculate the price of each good .
3. Using 2010 as the base year, calculate the CPI for each year.
4. What is the inflation rate in 2011?
5. An economy of country Vita produces only one good. In 2001, 6 items were produced at price of $2. In 2002, the 8 items were produced at price of $3. In 2003, 10 items were produced at price of $4. 2001 is the base year.
6. What is nominal GDP for each of these three years?
7. What is real GDP for each of these years?
8. What is the GDP deflator for each of these years?
9. What is the percentage growth rate of real GDP from year 2002 to year 2003?
10. What is the inflation rate as measured by the GDP deflator from year 2002 to year 2003?
11. Provide definition of GDP. Explain the GDP measure and the components of it. Provide examples for each component of GDP. (\*GDP Measures - from Income and Expenditure perspectives)
12. Is GDP a good measure of economic well-being? Why yes and why not? Discuss alternative to GDP, and provide an example for one country comparing GDP and alternative measure matching or diverging.
13. Explain the consumer price index and steps to calculate it, describe the three problems that make CPI an imperfect measure of the cost of living.

**Chapter 25**

1. What information does a production function provide? Discuss properties of production function and show on the graph.
2. "Discuss the following statement: ""In the long run, the higher saving rate leads to a higher level of productivity and income but not to higher growth in these variables.
3. Define Diminishing Returns and the Catch-Up Effect."
4. Write down two different examples for a function with constant returns to scale, increasing return to scale and decreasing return to scale. Show that each function has exactly required property.
5. Discuss investment from abroad and its effect on measures of economic prosperity. Advise how investment from abroad can boost economic growth.
6. Discuss how countries can achieve more rapid economic growth by pursuing free trade policies and investing in education.

**Chapter 26**

1. "Imaginary country Vita has GDP of 9 trillion USD, taxes are 2.5 trillion, public savings 1 trillion USD, private saving 1.5 trillion USD. Assuming this economy is closed,

calculate consumption, government purchases, national saving and investment. Show your work.

"

1. Discuss Saving Incentives and Investment Incentives policy using market for loanable funds model.
2. Discuss Government Budget Deficits and Surpluses policy using market for loanable funds model.
3. "Economists in Vita (a closed economy), have collected the following information about the economy for a year: Y = 10,000: C = 6,000: T = 1,500: G = 1,700. The economists also estimate that the investment function is I = 3,300 – 100 r, where r is the country’s real interest rate, expressed as a percentage. Calculate private saving, public saving, national saving, investment, and the equilibrium real interest rate." Suppose the government borrows $20 billion more next year than this year.

a. Use a supply-and-demand diagram to analyze this policy. Does the interest rate rise or fall?

b. What happens to investment? To private saving? To public saving? To national saving? Compare the size of the changes to the $20 billion of extra government borrowing.

c. How does the elasticity of supply of loanable funds affect the size of these changes?

d. How does the elasticity of demand for loanable funds affect the size of these changes?"

**Chapter 27**

1. Discuss Unemployment measures and types of Unemployment
2. Discuss Minimum Wages Law, show your analysis using supply and demand.
3. Discuss three types of the Theory of Efficient Wage.
4. Why is frictional unemployment inevitable? How might the government reduce the amount of frictional unemployment?
5. Labor market is divided into two different markets: the market for low-skill workers and the market for high-skill workers. Competitive equilibrium wage in the low-skill market is £4.00 per hour while the competitive equilibrium wage in the high-skill market is £16.00 per hour.
6. If the minimum wage is set at £6.00 per hour, which market will exhibit the greatest amount of unemployment? Demonstrate it graphically.
7. Does the minimum wage have any impact on the high skill market? Why?
8. Do your results seem consistent with labor market statistics? Explain.
9. Suppose the high-skill market becomes unionized and the new negotiated wage is £19.00 per hour. Will this have any impact on the low skill market? Explain.

**Chapter 29**

1. What are the options available to the Federal Reserve to increase the money supply?

Explain how each works. How can the effectiveness of these policies be limited by the actions of banks and the public?"

1. "Use the quantity equation for this problem. Suppose the money supply is €200, real output is 1,000 units, and the price per unit of output is €1.
2. What is the value of velocity?
3. If velocity is fixed at the value you solved for in part (a), what does the quantity theory of money suggest will happen if the money supply is increased to €400?
4. Suppose that when the money supply is doubled from €200 to €400, real output grows a small amount (say 2 per cent). Now what will happen to prices? Do prices more than double, less than double, or exactly double? Why?
5. "What characteristics of an asset make it useful as a medium of exchange? As a store of value?
6. Vita Bank (VB) holds $450 trillion in deposits and maintains a reserve ratio of 15 percent.
7. Show a T-account for VB.
8. Now suppose that VB’s largest depositor withdraws $12 trillion in cash from her account. If VB decides to restore its reserve ratio by reducing the amount of loans outstanding, show its new T-account.
9. Explain what effect VB’s action will have on other banks.
10. Why might it be difficult for VB to take the action described in part (b)? Discuss another way for BSB to return to its original reserve ratio.
11. What is Money Multiplier and why do we use it?

**Chapter 30**

1. Explain the adjustment process in the money market that creates a change in the price level when the money supply increases.
2. Draw and explain the Effects of a Monetary Injection
3. Explain the Classical Dichotomy and Monetary Neutrality in the money market.
4. Recall that money serves three functions in the economy. What are those functions? How does inflation affect the ability of money to serve each of these functions?
5. Explain Velocity and the Quantity Equation. Indicate five steps are the essence of the quantity theory of money.
6. By using the Inflation Tax, explain why do the central banks of countries choose to print so much money that its value is certain to fall rapidly over time?
7. Explain several costs of inflation that were identified by economist. Explain how each may have effect on real variables.
8. Suppose that this year’s money supply is $500 billion, nominal GDP is $10 trillion, and real GDP is $5 trillion.
9. What is the price level? What is the velocity of money?
10. Suppose that velocity is constant and the economy’s output of goods and services rises by 5 percent each year. What will happen to nominal GDP and the price level next year if the Fed keeps the money supply constant?
11. What money supply should the Fed set next year if it wants to keep the price level stable?
12. What money supply should the Fed set next year if it wants inflation of 10 percent?

**Chapter 31**

1. Under what circumstances does purchasing-power parity explain how exchange rates are

determined, and why is it not completely accurate? Suppose that a U.S. dollar buys more gold in Australia than it buys in Russia. What does purchasing-power parity imply should happen?

1. Consider 3 different possibilities for economy: a country with a trade deficit, a country with balanced trade and country with a trade surplus. Explain possible outcomes for these three economic conditions. (What is level of export, import, national Income, Investment, saving, Net Capital outflow).
2. Explain Basic Logic and limitations of Purchasing Power Parity.
3. What is nominal and real exchange rate? What is appreciation and depreciation? Explain separately their impact on Net Export level
4. What is Net Capital Outflow (NCO)? Why does NCO always equal to Net Export Level (explain it with one example)? Explain some important variables that influences NCO.

**Chapter 32**

1. Explain demand and supply side of Market for Loanable Funds and Market for Foreign-Currency Exchange. Draw diagram for both markets. By using these market draw a diagram that shows Equilibrium in the Open Economy.
2. Explain the effect of Excess government revenue on the Equilibrium of Open Economy by help of diagrams. How were the key variables in both markets affected with this abnormal excess revenue? What will happen to interest rate, NCO, real exchange rate and NX? Explain your answer.
3. What is capital flight? What is the possible reason for it? Discuss the effect of capital flight on interest rate and exchange rate.
4. Why the Long-Run Aggregate-Supply Curve Might Shift.

**Chapter 33**

1. What is Economic Fluctuation? And Explain three key facts about Economic fluctuations.
2. Explain two causes of Economic Fluctuations by applying Aggregate Demand and Supply Model (use diagram).
3. Discuss the three theories that explain upward sloping of short-run aggregate supply curve.
4. Explain graphically the effect of a Shift in Aggregate Demand (both left and right).
5. Why Aggregate Supply Curve is Vertical in Long-run? Explain the variables that may shift Supply Curve.
6. List and explain the three reasons the aggregate demand curve is downward sloping.
7. Why the Aggregate-Supply Curve Is Vertical in the Long Run

**Chapter 33 (from N. Gregory Mankiw and Mark P. Taylor; Economics second edition)**

1. Suppose the government reduces taxes by €2 billion, that there is no crowding out, and that the marginal propensity to consume is 0.75.
2. What is the initial effect of the tax reduction on aggregate demand?
3. What additional effects follow this initial effect? What is the total effect of the tax cut on aggregate demand?
4. How does the total effect of this €2 billion tax cut compare to the total effect of a €2 billion increase in government purchases? Why?
5. Suppose economists observe that an increase in government spending of €10 billion raises the total demand for goods and services by €30 billion.
6. If these economists ignore the possibility of crowding out, what would they estimate the marginal propensity to consume (MPC) to be?
7. Now suppose the economists allow for crowding out. Would their new estimate of the MPC be larger or smaller than their initial one? Explain your answer.
8. What does the IS curve show? What does the LM curve show? What determines the slope of the IS curve? What determines the slope of the LM curve? In relation to your answer to these questions, explain why these determinants can be a source of disagreement amongst economists?
9. Explain how the aggregate demand curve is derived from the IS-LM model
10. Distinguish between planned spending and actual spending. Explain, using an appropriate diagram, how a deflationary gap can occur and how this gap can be eliminated.
11. Use IS-LM analysis to explain the following and draw IS-LM curve
12. The government institutes significant cuts in public expenditure.
13. The central bank institutes an asset purchasing facility which expands the money supply by €300 billion.
14. The central bank fears that inflationary pressures are rising and increases interest rates.
15. The government increases taxation to try and reduce a large budget deficit.

**Chapter 34**

1. In which of the following circumstances is expansionary fiscal policy more likely to lead to a short-run increase in investment? Explain.
2. When the investment accelerator is large, or when it is small?
3. When the interest sensitivity of investment is large, or when it is small?
4. We said that the interest rate adjusts to balance the supply of loanable funds (national saving) and the demand for loanable funds (desired investment). In addition, we learnt that the interest rate adjusts to balance the supply of and demand for money. Can we reconcile these two theories?
5. Suppose the government reduces taxes by $20 billion, that there is no crowding out, and that the marginal propensity to consume is ¾.
6. What is the initial effect of the tax reduction on aggregate demand?
7. What additional effects follow this initial effect? What is the total effect of the tax cut on aggregate demand?
8. How does the total effect of this $20 billion tax cut compare to the total effect of a $20 billion increase in government purchases? Why?
9. What is the theory of liquidity preference? How does it help explain the downward slope of the aggregate-demand curve? Explain multiplier and crowding out effect.
10. Give an example of a government policy that acts as an automatic stabilizer. Explain why the policy has this effect.
11. Discuss the Case for Active Stabilization Policy
12. Discuss The Case against Active Stabilization Policy
13. Discuss Automatic Stabilizers.
14. Monetary policy works through interest rates. This conclusion raises a question: What if the Fed’s target interest rate has fallen as far as it can? In the recession of 2008 and 2009, the federal funds rate fell to about zero. What, if anything, can monetary policy do then to stimulate the economy?
15. Explain how each of the following developments would affect the supply of money, the demand for money, and the interest rate. Illustrate your answers with diagrams.
16. The Fed’s bond traders buy bonds in open-market operations.
17. An increase in credit card availability reduces the cash people hold.
18. The Federal Reserve reduces banks’ reserve requirements.
19. Households decide to hold more money to use for holiday shopping.
20. A wave of optimism boosts business investment and expands aggregate demand.
21. The Federal Reserve expands the money supply by 5 percent.
22. Use the theory of liquidity preference to illustrate in a graph the impact of this policy on the interest rate.
23. Use the model of aggregate demand and aggregate supply to illustrate the impact of this change in the interest rate on output and the price level in the short run.
24. When the economy makes the transition from its short-run equilibrium to its long-run equilibrium, what will happen to the price level?
25. How will this change in the price level affect the demand for money and the equilibrium interest rate?
26. Is this analysis consistent with the proposition that money has real effects in the short run but is neutral in the long run?
27. The economy is in a recession with high unemployment and low output.
28. Draw a graph of aggregate demand and aggregate supply to illustrate the current situation. Be sure to include the aggregate demand curve, the short-run aggregate supply curve, and the long-run aggregate supply curve.
29. Identify an open-market operation that would restore the economy to its natural rate.
30. Draw a graph of the money market to illustrate the effect of this open-market operation. Show the resulting change in the interest rate.
31. Draw a graph similar to the one in part (a) to show the effect of the open-market operation on output and the price level. Explain in words why the policy has the effect that you have shown in the graph.

**Chapter 35**

1. Suppose the price of oil falls sharply. Show the impact of such a change in both aggregate demand/ aggregate supply diagram and in the Phillips curve diagram. What happens to inflation and unemployment in the short-run?
2. The Fed decides to reduce inflation. Use the Phillips curve to show the short-run and long-run effects of this policy. How might the short-run costs be reduced?
3. Explain the long-run Phillip curve. According to what theory can we explain this vertical curve?
4. Explain the equation of the short-run Phillips curve, which was proposed by Friedman and Phelps. Discuss each variable in the equation. What will happen to this equation in the long-run
5. Illustrate the effects of the following developments on both the short-run and the long-run Phillips curves. Give the economic reasoning underlying your answers
6. a rise in the natural rate of unemployment
7. a decline in the price of imported oil
8. a rise in government spending
9. a decline in expected inflation
10. Suppose that a fall in consumer spending causes a recession.
11. Illustrate the immediate change in the economy using both an aggregate-supply/aggregate-demand diagram and a Phillips-curve diagram. On both graphs, label the initial long-run equilibrium as point A and the resulting short-run equilibrium as point B. What happens to inflation and unemployment in the short run?
12. Now suppose that over time expected inflation changes in the same direction that actual inflation changes. What happens to the position of the short-run Phillips curve? After the recession is over, does the economy face a better or worse set of inflation– unemployment combinations?
13. Suppose Federal Reserve policymakers accept the theory of the short-run Phillips curve and the natural-rate hypothesis and want to keep unemployment close to its natural rate. Unfortunately, because the natural rate of unemployment can change over time, they aren’t certain about the value of the natural rate. What macroeconomic variables do you think they should look at when conducting monetary policy?
14. As described in the chapter, the Federal Reserve in 2008 faced a decrease in aggregate demand caused by the housing and financial crises and a decrease in short-run aggregate supply caused by rising commodity prices.
15. Starting from a long-run equilibrium, illustrate the effects of these two changes using both an aggregate-supply/aggregate-demand diagram and a Phillips-curve diagram. On both diagrams, label the initial long-run equilibrium as point A and the resulting short-run equilibrium as point B. For each of the following variables, state whether it rises or falls, or whether the impact is ambiguous: output, unemployment, the price level, the inflation rate
16. Suppose the Fed responds quickly to these shocks and adjusts monetary policy to keep unemployment and output at their natural rates. What action would it take? On the same set of graphs from part (a), show the results. Label the new equilibrium as point C.
17. Why might the Fed choose not to pursue the course of action described in part (b)?