1. Provide explanation of 4 out of 10 principles of Economics and give some examples about them.
2. Assume the budget is 30 dollars and X and Y stands for bread price and quantity of bread respectively. Draw the graph line based on above pairs. Assume that positive shock was happened which increases the budget (1 case) and the person lost his job which was resulted with half loss of previous budget (2 case). How will these shocks affect graph. What will happen on graph if there is change in price?.
3. What are advantages of market economy form centrally planned economy. Does it always achieve efficiency in the economy? Why and why not?
4. Draw production possibility frontier for bread and chewing gum. Using the concept of opportunity cost explain why it most likely has a bowed-out shape. Show the efficient, inefficient and economically infeasible points in the graph and explain them.
5. What is tradeoff between equality and efficiency in the short-run and long-run? Explain your answer and provide example about this tradeoff.
6. Draw production possibility frontier for tomato and car production. If there is drought in year, how will it affect the frontier? Explain also the effect of high taxes on car production. If the price of tomato increased dramatically, how the frontier will change?
7. Demand equation equals to Qdemand=1000-20\*P

Supply equation equals to Qsupply=-200+10\*P

Government decides intervene to the market and set the number of quantity produced equal to 150 units. Find the social surplus before intervention of government. What is associated dead weight loss with government intervention? Provide graphical analysis as well.

1. Discuss the effect of price changes on budget constraint. Explain substitution and income effect. Show these effects graphically.
2. A consumer consumes two goods x1 and x2. The utility function is given as following:

U(x1, x2)=2\*x10.4x20.6

Compute the marginal utilities for x1 and x2 and briefly explain their characteristics. Compute MRSx1, x2 and interpret results. Is it diminishing marginal utility?

1. Assume we have only bread and car in the economy. You can see the price and quantities produced of the two goods in the following years:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | Price of bread | Quantity of bread | Price of car | Quantity of car |
| 2013 | 3 | 100 | 10 | 30 |
| 2014 | 5 | 120 | 15 | 32 |
| 2015 | 8 | 125 | 16 | 35 |

Calculate Real GDP, Nominal GDP and GDP deflator (base year is 2013).

1. Explain the GDP measure and the components of it. Provide examples for each component of GDP.
2. Is GDP a good measure of economic well-being? Why and why not?
3. Analyze the following 2 cases and explain your answer.

* A farmer sells wheat to a baker for $2. The baker uses the wheat to make bread, which is sold for $3. What is the total contribution of these transactions to GDP?
* Many year ago, Azer paid 300 manat to put together a record collection. Today she sold her albums at a garage sale for $100. How does this sale affect current GDP?

1. Consider the following data on GDP:

|  |  |  |
| --- | --- | --- |
| Year | Nominal GDP | GDP deflator (base year 1996) |
| 2000 | 9873 | 118 |
| 1999 | 9269 | 113 |

* What was real GDP in 1999 measured in 1996 prices?
* What was real GDP in 2000 measured in 1996 Prices?

1. What are determinants of productivity? Is the productivity main determinant of different economic growth among countries?
2. Let’s assume that we have production function as Y=3/4\*K0.3L0.9. Is it constant, increasing or decreasing return to scale? Find marginal productivity of Capital and Labor.
3. What is diminishing returns and catch-up effect? Explain with the help of graph.
4. Is the existence of natural resources key determinant of growth of countries? Why yes and why not? Consider Azerbaijan case.
5. Why is it important for people who own stocks and bonds to diversify their holdings?  
   What type of financial institution makes diversification easier?
6. What is national saving? What is private saving? What is public saving? How are these  
   three variables related?
7. What is investment? How is it related to national saving?
8. Describe a change in the tax code that might increase private saving. If this policy were implemented, how would it affect the market for loanable funds?
9. What is a government budget deficit? How does it affect interest rates, investment, and economic growth?
10. By using the diagram of labor market, discuss the effect of an increase in the minimum wage on the wage paid to workers, the labor supply, the number of workers demanded and the amount of unemployment.
11. Assume that the economy has two sectors – one manufacturing and the other one is service. Suppose initially that the workers of both sectors are not unionized.

A) If manufacturing workers formed a union, what impact on the wages and employment in manufacturing sector would you predict?

B) How would these changes in manufacturing labor market affect the supply of labor in the market for service workers? What would happen to the equilibrium wage and employment in this labor market?

1. Suppose that T account for the first national bank is as follows:

|  |  |
| --- | --- |
| Assets | Liabilities |
| Reserves 50  Loans 150 | Deposits 200 |

1. If Central government requires banks to hold Reserve Ratio 5%, how much in excess reserves does first national bank now hold?
2. If the first National bank reduce its reserve to only required amount, by how much would the economy`s money supply increase.
3. What is the main goal of reserve requirement set by central bank? Why does it important for deposit holders?
4. Explain Functions of Money by providing examples. Moreover, mention the differences between fiat and commodity money.
5. There are total money of 3000$ in the economy. Reserve Ratio is 5% and the number of banks is infinity. What are Money Multiplier and Total Money Supply in the economy? Explain factors that affect money multiplier in the economy.
6. What is Money Multiplier and why do we use it?
7. If we assume there are 5 banks in the economy, what will be the total Money Supply in the economy? Total amount of money in the economy is 900$, Deposits=400 $, Reserve Ratio is 15%. There are no excess reserves that banks hold. People keep 500 $ in their pocket (at home).
8. Which tools is used by Central Bank of Azerbaijan to stabilize the exchange rate of manat? Discuss the effectiveness of these tools.
9. What tools does the Central Bank use to control money supply in the market. Explain each of them and provide examples.
10. Write quantity equation. For what purpose do we use it? and explain each variable in the equation. What is velocity and how can we derive it?
11. 1 case-The Central Bank lowers the reserve requirement to 5%, but banks choose to hold another 5% of deposits as excess reserves. Why might banks do so? What is overall change in the money multiplier and the money supply? 2 Case- If Central Bank sells 1 million of government bonds, what is the effect on the economy´s reserves and money supply?
12. 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.

a. What is the value of velocity?

b. 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?

c. 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?

1. Explain the difference between nominal and real variables and give two examples of each. According to the principle of monetary neutrality, which variables are affected by changes in the quantity of money?
2. Explain seigniorage problem? Moreover, mention costs and benefits of inflation.
3. Suppose that the reserve requirement for demand deposits is 10% and that banks do not hold any excess reserves.
4. If the Central government sells 1 thousand of government bonds, what is effect on the economy´s reserves and money supply?
5. Central Banks lowers the reserve requirement to 5 %, but banks choose to hold another 5 percent of deposits as excess reserves. Why might banks to so? What is overall change in the money multiplier and the money supply?
6. What is classical dischotomy? Explain the main idea behind it.
7. What is Net Capital Outflow? Why does NCO always equal to Net Export Level (explain it with one example)? Explain some important variables that influences net capital outflow.
8. 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)
9. Assume that Germany sells Machine X for 100 Euros, while Azerbaijan sells the same machine for 125 Manats. Nominal exchange rate 1 euro is 1.2 manat. Assume there are no transportation or transaction costs. Find real exchange rate and interpret it. Explain the arbitrage strategy if it exists. Explain how may the presence of transportation costs affect the arbitrage?
10. Suppose that a textile workers’ union encourages people to buy only American-made  
    clothes. What would this policy do to the trade balance and the real exchange rate? What is the impact on the textile industry? What is the impact on the auto industry?
11. Would each of the following groups be happy or unhappy if Azerbaijan Manat appreciated? Explain your answer for each group.

a) Dutch Pension Fonds holding Azerbaijan Government Bonds

b) Azerbaijan manufacturing Industries

c) European tourists planning a trip to Baku

d) Azerbaijan firm trying to purchase property in Europe

1. Explain Basic Logic and limitations of Purchasing Power Parity.
2. What are the costs of inflation? Which of these costs do you think are most important for the Azerbaijan economy?
3. What is capital flight? When a country experiences capital flight, what is the effect on its interest rate and exchange rate?
4. Describe supply and demand in the market for loanable funds and the market for foreign currency exchange. How are these markets linked?
5. How does trade policy affect the quantity of goods and services that a country imports and exports?
6. How does the market for loanable funds and the market for foreign-currency exchange jointly determine the important macroeconomic variables of an open economy?
7. Why does Aggregate demand curve downward sloping? List reasons and explain each reason clearly.
8. When do Aggregate demand and Aggregate supply curve might shift? List reasons and explain.
9. Explain why the long-run aggregate-supply curve is vertical.
10. What might shift the aggregate-demand curve to the left? Use the model of aggregate demand and aggregate supply to trace through the short-run and long-run effects of such a shift on output and the price level.
11. What might shift the aggregate-supply curve to the left? Use the model of aggregate demand  
    and aggregate supply to trace through the short-run and long-run effects of such a shift on  
    output and the price level.
12. For each of the following events, explain the short-run and long-run effects on output and the price level, assuming policymakers take no action.  
    a. The stock market declines sharply, reducing consumers’ wealth.  
    b. The federal government increases spending on national defense.  
    c. A technological improvement raises productivity.  
    d. A recession overseas causes foreigners to buy fewer U.S. goods.
13. What is stagflation? How might government improve situation? What is the trade-off of government intervention?
14. What is the theory of liquidity preference? How does it help explain the downward slope of the aggregate-demand curve?
15. Use the theory of liquidity preference to explain how a decrease in the money supply affects the aggregate-demand curve.
16. The government spends $3 billion to buy police cars. Explain why aggregate demand might  
    increase by more than $3 billion. Explain why aggregate demand might increase by less than  
    $3 billion.
17. Give an example of a government policy that acts as an automatic stabilizer. Explain why the  
    policy has this effect.
18. Suppose the government reduces taxes by $20 billion, that there is no crowding out, and  
    that the marginal propensity to consume is ¾.  
    **a**. What is the initial effect of the tax reduction on aggregate demand?  
    **b**. What additional effects follow this initial effect? What is the total effect of the tax cut on aggregate demand?  
    **c**. 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?
19. The economy is in a recession with high unemployment and low output.  
    **a**. 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.  
    **b**. Identify an open-market operation that would restore the economy to its natural rate.  
    **c**. Draw a graph of the money market to illustrate the effect of this open-market operation.  
    Show the resulting change in the interest rate.
20. 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.  
    **a.** The Fed’s bond traders buy bonds in open market operations.  
    **b**. An increase in credit-card availability reduces the cash people hold.  
    **c**. The Federal Reserve reduces banks’ reserve requirements.  
    **d**. Households decide to hold more money to use for holiday shopping.
21. The Federal Reserve expands the money supply by 5 percent.  
    **a**. Use the theory of liquidity preference to illustrate in a graph the impact of this policy on the interest rate.  
    **b**. 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.  
    **c**. When the economy makes the transition from its short-run equilibrium to its long-run equilibrium, what will happen to the price level?
22. Draw the short-run trade-off between inflation and unemployment. How might the Central Bank move the economy from one point on this curve to another?
23. Draw the long-run trade-off between inflation and unemployment. Explain how the short-run and long-run trade-offs are related.
24. What is “natural” about the natural rate of unemployment? Why might the natural rate of  
    unemployment differs across countries?
25. 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?
26. Illustrate the effects of the following developments on both the short-run and long-run Phillips curves. Give the economic reasoning underlying your answers.  
    a. A rise in the natural rate of unemployment  
    b. A decline in the price of imported oil  
    c. A rise in government spending  
    d. A decline in expected inflation
27. Suppose that a fall in consumer spending causes a recession.  
    a. 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?  
    b. 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?
28. What are the costs of reducing inflation?
29. Shifts in Phillips curve: the role of supply shocks.
30. What is Reconciling theory? Provide evidence about that theory.
31. Suppose the Federal Reserve announced that it would pursue contractionary monetary policy to reduce the inflation rate. Would the following conditions make the ensuing recession more or less severe? Explain.  
    a. Wage contracts have short durations.  
    b. There is little confidence in the Fed’s determination to reduce inflation.  
    c. Expectations of inflation adjust quickly to actual inflation