ECONOMICS 203
MACRO EXAM – Spring 2010

(Point values in parentheses)

(10) 1. (11.2.10) Identify and explain the three different kinds of unemployment.


(10) 2. (12.3.1) Comment on the following statement: It takes 20 years to reach the long run.


(10) 3. (13.2.21) Identify the three factors that determine the level of long term capital supply.


(10) 4. (13.3.9, 12) Suppose the demand for euros by people holding dollars expands. Show what this would look like on an appropriately labeled graph in which euro are the commodity. Which currency is getting weaker? Describe what it means for a currency to get weaker.


(15) 5. (17.2.8) The U.S. budget deficit is very large. Using an appropriate graph, describe and explain how, ceteris paribus, significant government borrowing can affect the level of private investment. Ceteris paribus, how might this affect the exchange rate and in turn the trade position (X-M)?
Press Release of the Federal Open Market Committee, April 28th, 2010

“Information received since the Federal Open Market Committee met in March suggests that economic activity has continued to strengthen and that the labor market is beginning to improve. …

“With substantial resource slack continuing to restrain cost pressures and longer-term inflation expectations stable, inflation is likely to be subdued for some time. …”

a. Identify the number of voting members on the FOMC.
b. Identify the term for the primary method the FOMC uses in order to implement Monetary Policy.
c. Identify the variable which the FOMC targets in order to implement its Monetary Policy.
d. Explain what “slack” in the economy means.
e. Explain the current Monetary Policy of the FOMC.
f. Explain, step by step using appropriate graphs, how this policy has been implemented from initial step to effect on AD.
g. Explain why some people oppose the current policy – include differences in assumptions, perceptions, and concerns.

(15) 7. (17.2.15) Using appropriate graphs describe and explain, ceteris paribus, the non-interventionist’s argument that interventionist fiscal policy is not necessary when there is demand deficient unemployment. (No need to explain any problem it might cause.)
8. Excerpted from: “Strains Easing, Obama Talks With Chinese Leader” By Andrew Jacobs and Mark Lander. NYT 2 April 2010, BEIJING — “The most important issue in the Chinese-American relationship is currency,” said Senator Charles E. Schumer, Democrat of New York, who introduced a bill threatening China with trade sanctions. ‘It relates to American jobs, American wealth and the future of this country. This issue should not be traded for another.’”

(a) Explain what China has been doing to its currency.
(b) Using an appropriate graph explain how China implements this currency policy.
(c) Explain why China is pursuing this policy.
(d) Identify the name of the tradition in political economy that advocates using policies like this one to “win” in the international trade game.
(e) Explain how this policy by China relates to the United States debt.
(f) Identify the term used to label policies that a nation adopts to guard its domestic producers from international competition.
(g) What is “another” issue Senator Schumer may be referring to when he says: “This issue should not be traded for another.”

9. A January 19, 2009 article in the New York Times includes the line: “Now that the recession is causing … falling consumer confidence, there has been a sharp contraction ….”

(a) Write out and name the equation that represents the sources of consumption in the aggregate economy.
(b) Explain each letter in that equation.
(c) Identify, approximately, the percentage of Aggregate Demand that consumption represents in the U.S. aggregate economy.
(d) Using the equation from part “a” and an appropriate graph, explain how falling consumer confidence can lead to a fall in consumption and in turn can contribute to a “sharp contraction” in the economy.
(e) Explain the effect of such a contraction on real GDP and unemployment?
(10) 10. Some folks are concerned that the Fed is “monetizing” the deficit. Using appropriate graphs show what that means and explain why it could be a concern.

I understand the general standards of academic integrity established by Syracuse University and those specific standards laid out in Professor Evensky’s syllabus. My work on this exam meets those high standards of academic integrity.

Signed:______________________________