

Name: _____

Student id: _____



College of Business Administration
Department of Economics
Aggregate Economic Conditions
ECO 3203-0001
Spring 2001

Lecturer: O. Mikhail

FINAL EXAM

Version A

- This closed book exam is worth 100 points.
The exam totals 40 multiple-choice questions and 2 short essay questions.
Each multiple-choice correct answer is worth 2 points.
The multiple-choice questions are worth 80 points.
The short essay questions are worth 20 points.
Allocate your time accordingly.
- Including the cover page, the exam totals 14 pages.
- Answer ALL questions.
- Answer the multiple-choice questions on the computer sheet.
- **DO NOT** forget to write your name, your student id and the version number on both: the computer sheet and the exam booklet.
- Non-Programmable calculators and language dictionaries are allowed.
- At the end of the exam, hand-in the exam booklet and the computer sheet to the examiner.

April 30, 2001

1:00 p.m. – 3:50 p.m.

Short-Essay Questions.

Answer in the given space below each question.

Question I (10 points):

Discuss the circumstances under which the monetary and fiscal policy multipliers are each, in turn, equal to zero. Explain in words why this can happen and how likely you think this is.

Question II (10 points):

The U.S. economy is near a recession. To avoid this recession, a mix between monetary and fiscal policies is in sight. The Fed reduced the Fed rate by 50 basis points. Fiscal policy will reduce income taxes. **BE BRIEF, CLEAR and USE GRAPHS.**

- a) Using IS-LM and AD-AS, describe the joint effect of both policies on the U.S. economy.
- b) Does it matter which policy is pursued first? Explain why.
- c) If both are initiated at the same time, describe the interest rate behavior over time. Explain.
- d) Do you agree with this policy mix? Do you have an alternative to avoid the recession? Explain your answer.