

Name: _____

Student id: _____



**College of Business Administration
Department of Economics
Aggregate Economic Conditions
ECO 3203-0001
Fall 2000**

Lecturer: O. Mikhail

Exam I

- This closed book exam is worth 100 points. The exam totals 5 questions. Each question is worth 20 points. Allocate your time accordingly.
- Including the cover page, the exam totals 4 pages.
- Answer all questions: I – II – III – IV.
Answer only one question from V and VI.
- DO NOT forget to write your name, your student id on the exam booklet.
- Non-Programmable calculators and language dictionaries are allowed.

8:30 a.m. – 9:45 a.m.

BA 225

September 19, 2000

Question I:

What is the difference between GDP and GNP? Is one a better measure of income/output than the other?

Question II:

Suppose that a country's CPI increased from 2.1 to 2.3 in the course of 1 year.

- a) Use this fact to compute the rate of inflation for that year.
- b) Why might the CPI overstate the rate of inflation.
- c) The CPI and PPI are both measures of the price level. How are they different, and when might you prefer one of these measures over the other?

Question III:

From national accounting, show that an increase in both consumption and saving must imply an increase in disposable income. [Assume that there are no interest payments by households or transfer payments to foreigners].

Question IV:

- a) Can the Solow 'growth theory' model explain the phenomenon of convergence? Why and How (if ever)?
- b) The production function in the Solow model omits the stock of natural resources. When, if ever, will this omission have serious consequences? Explain your answer.
- c) Discuss the implications of assuming an increasing returns to scale production function in the growth model. Explain.

**ANSWER ONLY ONE QUESTION FROM THE FOLLOWING:
QUESTION V and QUESTION VI**

Question V:

Suppose a Hurricane destroys one-quarter of the capital stock. Discuss the adjustment process of the economy. Show what happens to growth in the short run and the long run.

Question VI:

- a) What does 'The Asian Tigers' term refer to?
- b) "The recent increase in crude oil prices is a clear and present danger to the U.S. economy." Is the statement true or false? Discuss the merits of the statement. Explain your answer.