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Sommerterm 2005

http://www.fbw.hs-bremen.de/pschmidt

Macroeconomics

Friday, 08. April 2005   (45 min.)

Please note:

- First check the exam paper: are there 4 pages / all pages well readable?

- Please use the boxes for your answers. Please do not use own paper.

- The <u>complete solution method</u> must be traceable!

- They can achieve **45 points** – in 45 minutes! => one point is approximately worth one minute; please consider the indicated scores. The tasks are formulated that way, that usually short answers are required. **Care of your time management** (it turned out to be a crucial problem in the last exam) - do not spend too much time with "inferior" tasks!

- Permitted are: Pens, ruler, calculator (without word processing function), dictionary German/English.

- Please do not use a pencil (except in diagrams) nor red pens

- Mobile Phones have to be switched off!

Good Luck !

Name:																	
First Name:																	
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Please do not enter anything below here:

No. / Points:	
5.	(14)
6.	(16)
7.	(10)
8.	(5)
Teil-Σ	(45)

Mark:
Date:
Signature:

5 Principles of Economics – Describe the following principles briefly. [14 points]

5.1 Rational People think at the Margin [4 pt]

5.2 People Respond to Incentives. (Explain and give an *own* example (not the one from the book)) [5 pt]

5.3 Trade can make everyone better off. [5 pt]

6 You are in an economy whose consumption is equal to the following function:

$$C = 1{,}000 + 0.50\,Y$$

(16 points)

There are neither government expenditures nor any foreign trade at present but there are investment expenditures, which is constant at 2,000.
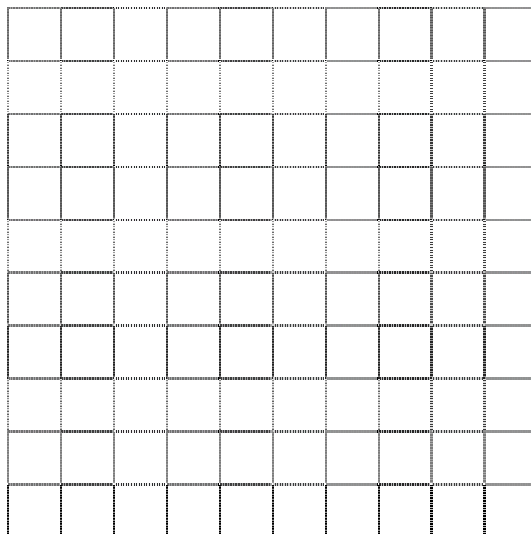
6.1 Complete the following table: *(3 P)*

Income	0	1000	2000	3000	4000	5000	6000	7000	8000	9000	10000
Consumption											
Aggregate Demand											

6.2 Calculate the equilibrium level of income. *(4 P)*

6.3 Now plot your consumption function, investment and aggregate demand on the 45° diagram below. Clearly identify the equilibrium level of income.
(As you now know the equilibrium, remember to choose the correct scales for the axes & label these!) *(4 P)*

6.4 We are able to increase the investment by $\Delta I = 500$
Plot and calculate the new equilibrium. You will find, that ΔY is significantly larger than ΔI. Explain this effect – what's its economic name? *(5 P)*

7 Macroeconomic Concepts (10 Points)

7.1 What is the difference between demand-pull and cost-push inflation? Describe in your own word. It may help to use a graph, but is not required. *(5 P)*

7.2 The inflation forecast for next year is 3 per cent. Workers are asking for a 5 percent pay rise. Should the firm agree to the 5 percent rise? *(3 P)*

7.3 Unemployment represents a pool of under-utilised resource. Should firms relocate to areas of high unemployment? *(3 P)*

8 Phillips curve [5 *Points*]

Discuss the Phillips curve. Which trade-off is described here? Do Economist generally agree about this relation?