

## Economics II

Macroeconomics (EFA)  
Friday, 2 July 2010 (60 min.)

Please note:

- At first please check the exam paper: are there 7 pages / all well readable?
- Please only work in the exam paper; use the boxes for your answers. Do not use own paper!
- Your calculations should be shown. The complete solution method must be traceable!
- You can achieve **60 points** – in 60 minutes! => one minute is approximately worth one point; please consider the indicated scores. The tasks are formulated that way that usually short answers are required. Therefore do not spend too much time with "inferior" tasks!  
→ To obtain a 100% marks you have to gather 60 points. There are four tasks worth 20 points each  
⇒ **you have to answer only 3 of the four tasks!**

**Important: Only 3 tasks will be marked !**

In case you worked at more than 3 tasks it is necessary that you clearly show which 3 tasks are to be counted (= check below). If you don't indicate which tasks to mark, *only the first three* will be counted.

- Permitted are: pens, ruler, calculator (without word processing function), English language dictionary.
- Please do not use a pencil (except in diagrams) or red pens.
- Mobile phones have to be switched off!

**Good Luck !**

Name:																				
First Name:																				
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Age: .....	Course: .....	Semester: .....	Gender: .....	Apprenticeship (y/n) .....
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Please do **not** enter anything below here:

**Clearly show which of the tasks you want to be marked !!** →

	No.	/	Points:
→	1.		(20)
→	2.		(20)
→	3.		(20)
→	4.		(20)
	$\Sigma$		( max. 60)

%

Mark exam:  
(66.7% of final mark)

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Date:

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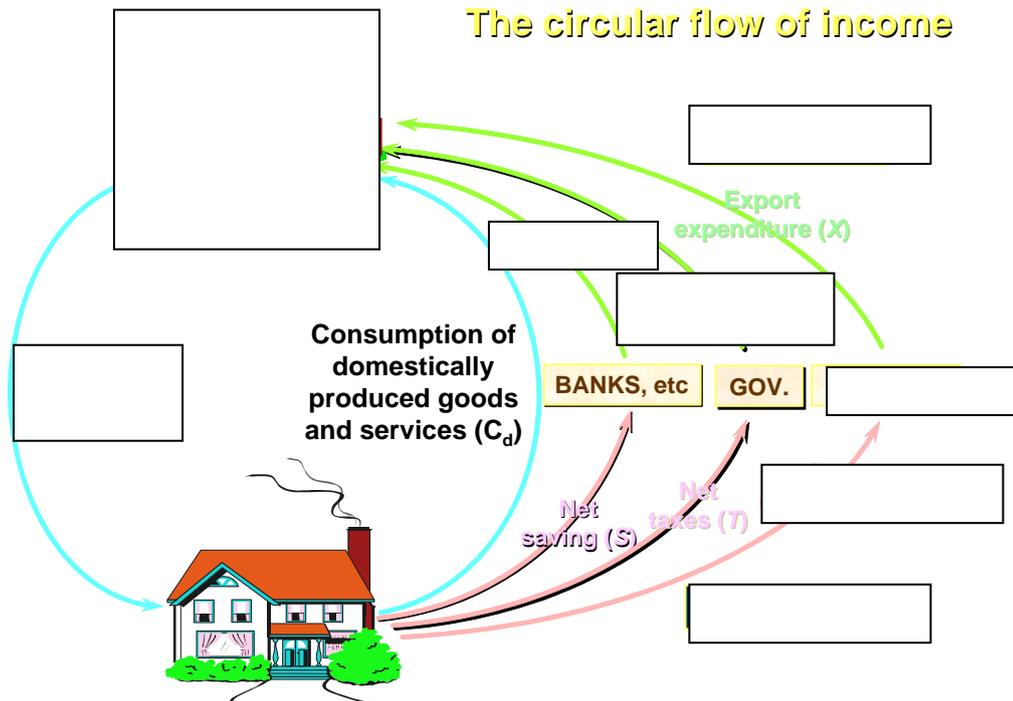
Signature:

**Task 1** National Accounting

(20 Points)

1.1 Fill the empty boxes in the following circular flow model.

(4 P)



1.2 Explain the concept of the model. Especially discuss the difference between the inner and the outer flow. (4 P)

1.3 Which are the three ways of measuring GDP? Describe (!) the basic concept of all three approaches. What do we use them for? (6 P)

1.4 Graph and describe a theoretical business cycle and its phases. *[Don't forget to properly label the axes]*  
Discuss in which situation Germany is currently.

(6 P)



(20)

**Task 2** Economic Policy

[20 points]

2.1 Fiscal and Monetary Policy: Briefly characterize both types of policy. Which is more important today in Germany? Which institution is responsible for which type in Germany?

[5 pt]



2.2 Describe and define M1, M2 and M3 (no literal definition but your description). What is in M2 and not in M1- why are they defined like this (what do we want to measure)? [4 pt]

2.3 Describe the ECB: (Historical) Background and especially the instruments. [6 pt]

2.4 Describe the concept of sustainability [5 pt]

( 20)

**Task 3** You are in an economy where the consumption is equal to the following function:  $C = 1\,000 + 0.9 Y$  [20 points]

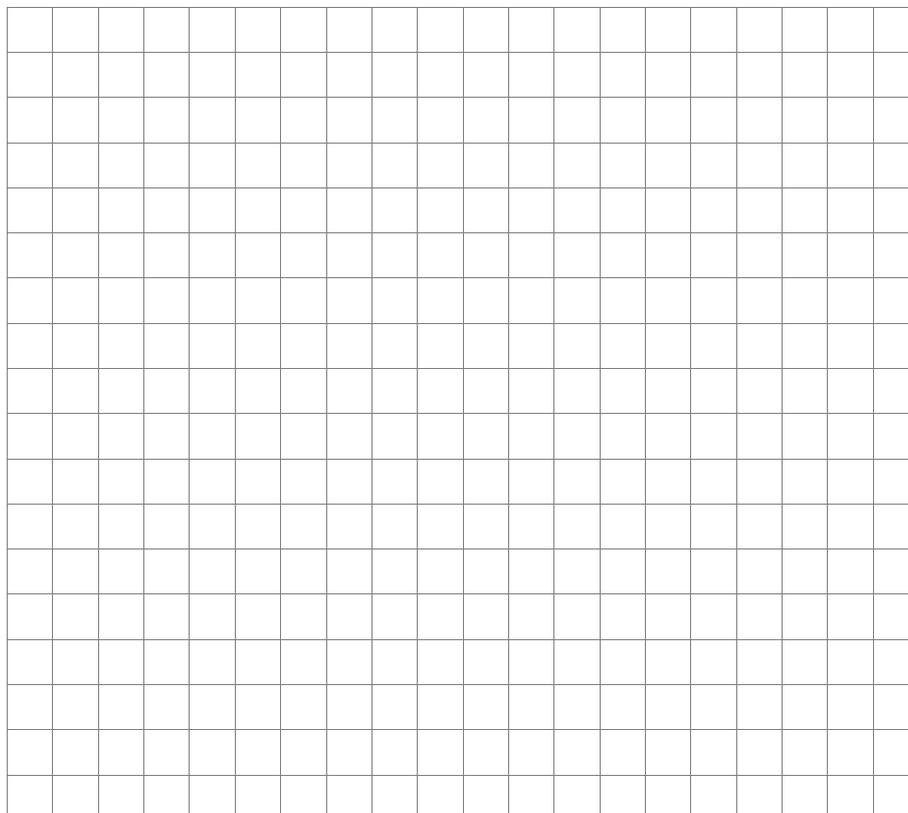
The economy has no government expenditure and does not have any foreign trade at present but does have investment expenditure, which is constant at 500.

3.1 Complete the following table: (4 P)

Income	0	500	1000	2000	3000	4000	5000	6000	7000	8000	9000
Consumption											
AD											

3.2 Calculate the equilibrium level of income. Explain what you do. (4 P)

3.3 Now plot your consumption function, investment and aggregate demand on the 45° diagram below. Clearly identify the equilibrium level of income. (4 P)



3.4 We are able to increase the investment by  $\Delta I = 500$  Calculate the new equilibrium. You will find, that  $\Delta Y$  is significantly larger than  $\Delta I$ . **Explain** this effect – economic name? (4 P)

3.5 Explain the concept of the consumption function (in your own words). Who invented this model (names of author and model)? (4 P)

(20)

**Task 4** Basic Theories / Economic Schools [20 points]

4.1 Describe the basic ideas of the theory founded by an important theorist in 1776 and described in his book “An inquiry into the nature and causes of the Wealth of Nations”. Especially discuss the mechanism and the implications of **free markets** and the connected theories. [7 pt]

4.2 **Explain** the statement “In some situations the government can improve market outcomes”.

Which are the situations where this is true from a theoretical point of view.

[6 pt]

4.3 Describe the meaning of the “the importance of **aggregate demand**”, the multiplier process and the demand management by **fiscal and monetary policies**. To which theory do these concepts belong (name of theory/founder and historic background).

[7 pt]

( 20 )