

EI06 - An Introduction to Macro-Economics

Département des Humanités

Autumn 2012

Final Exam

**No documents, computers, nor cellular phones are allowed.
Duration 2 hours**

Question 1 : Inflation (5 points):

Use the documents below to answer the following questions.

Yearly growth rates in HICP (%)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Portugal	4,4	3,7	3,3	2,5	2,1	3	2,4	2,7	-0,9	1,4	3,6	2,8	0,4
Ireland	4	4,7	4	2,3	2,2	2,7	2,9	3,1	-1,7	-1,6	1,2	1,9	0,5

Source: EUROSTAT

1. What is inflation ? How is short-term inflation measured ?(1 point)
2. What is the difference between Disinflation and Deflation ? (1 point)
3. Identify, using the data above, the phases of disinflation and deflation occurring in Ireland the last years (1 point)
4. Identify, using the data above, the phases of disinflation and deflation occurring in Portugal the last years (1 point)
5. According to the Monetarist theories, who would be the sole responsible for further increase in inflation in Portugal and Ireland ? (1 point)

Question 2 Economic Growth and Business Cycles (5 points) :

Use the data available below to answer the following questions.

Real GDP growth rate (%)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Belgium	0,8	3,3	1,8	2,7	2,9	1	-2,8	2,3	1,8	-0,1	0,2
Denmark	0,4	2,3	2,4	3,4	1,6	-0,8	-5,7	1,4	1,1	-0,4	0,4

Source: EUROSTAT

1. What is a business cycle ? (1 point)

2. What is the difference between an economic contraction and a recession ? (1 points)
3. Identify, using the data above, the phases of economic expansion, contraction and recession occurring in Belgium the last years (1 point)
4. Identify, using the data above, the phases of economic expansion, contraction and recession occurring in Denmark the last years (1 point)
5. What is 'intensive growth' ? To what does it oppose to ? (1 point)

Question 3 : Unemployment (2 points) :

1. Using you knowledge of the course, explain the effect of an increase in nominal wages on the labour market and unemployment considering respectively the Keynesian and the Neo-classical representation of the labour market.

Question 4 : Macro-economic equilibrium and the IS-LM model (5 points) :

1. What does the IS curve correspond to ? (1 point)
2. What does the LM curve correspond to ? (1 point)
3. Identify the following components of the IS-LM model. Justify your answer (1 point)
 - a. $I(r) = 5 - 0.75r$
 - b. $S(Y) = 0.5Y - 2$
 - c. $M = 6/P_0$ with $P_0 = 1$
 - d. $L(Y) = 1 + 0.5Y$
 - e. $L(r) = 4 - 0.5r$
4. Report all these elements on a single graph representing the IS-LM model. Locate the equilibrium interest rate and income level on the graph ? (2 points)

Question 5 : Macro-economic equilibrium and the AD-AS model (3 points) :

1. What does the AD curve correspond to ? (1/2 point)
2. What does the AS curve correspond to ? (1/2 point)
3. Which components of the AD-AS model define the level of income of an economy in the Neoclassical version of the model ? How is the price level defined ? (1 point)
4. Which components of the AD-AS mode define the level of income of an economy in the Keynesian version of the model ? How is the level of employment defined ? (1 point)