

EI06 – Principles of Macroeconomics

Département des Humanités

Printemps 2017

Final

Question 1: Inflation (5 points)

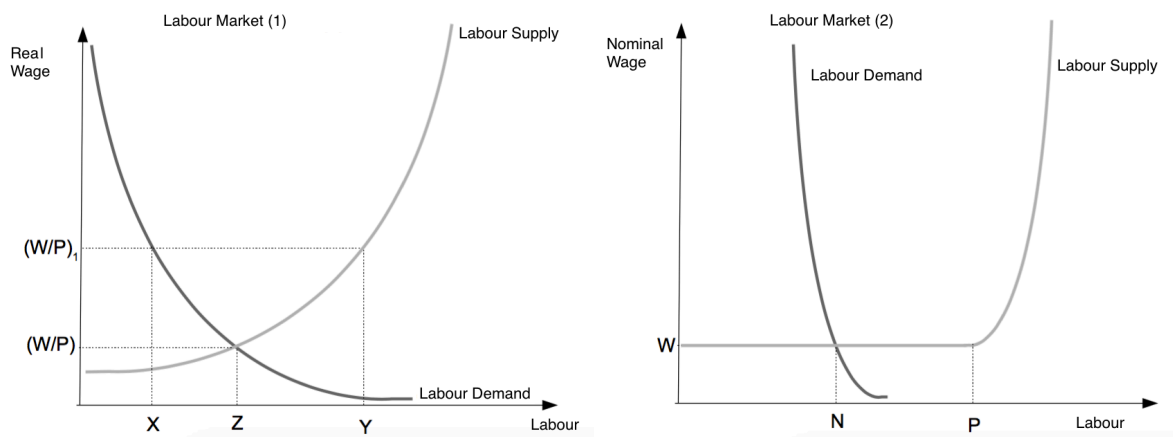
Yearly growth rates in HICP (%)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Ireland	2.7	2.9	3.1	-1.7	-1.6	1.2	1.9	0.5	0.3	0.0	-0.2
Italy	2.2	2.0	3.5	0.8	1.6	2.9	3.3	1.2	0.2	0.1	-0.1

Sources: EUROSTAT

1. What is the difference between Inflation and Deflation? (1 point)
2. What is Stagflation? (1 point)
3. Identify, using the data above, the phases of disinflation and deflation occurring in Ireland since 2006. (1 point)
4. Identify, using the data above, the phases of inflation and disinflation occurring in Italy since 2006. (1 point)
5. According to Keynesian theories, what would be two likely responsible for further increase in inflation? (1 point)

Question 2: Unemployment (2 points)



1. Identify, for each of the graphs above, the labour market as described by the Keynesian, and the one described by the Neoclassical economists. (1/2 point)
2. Explain the shape of the Labour Demand in the labour market (2)? (1/2 point)
3. Identify the level of unemployment on the labour market (1)? How to resolve it? (1/2 point)
4. Identify the level of unemployment in the labour market (2)? How to resolve it? (1/2 point)

Question 3: Economic Growth and Business Cycles (5 points)

Real GDP growth rates (%)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Denmark	3.6	0.5	-1.1	-5.4	1.4	0.9	-0.1	0.5	1,1	0.9	0.5
Belgium	1.8	2.6	-0.1	-3.0	1.8	0.9	-0.6	-0.5	1.2	1.0	0.7

Source: EUROSTAT

1. What is a business cycle? (1 point)
2. What is the difference between a contraction and a recession? (1 point)
3. Identify, using the data above, the phases of expansion and recession occurring in Denmark since 2005. (1 point)
4. Identify, using the data above, the phases of contraction and recession occurring in Belgium since 2006. (1 point)
5. What is a Kondratiev cycle? How do economists explain these cycles? (1 point)

Question 4: Macroeconomic equilibrium (8 points)

1. What does the LM curve correspond to? (1 point)
2. Define the three components of the demand for liquidity according to Keynes (1 point):
3. Use these three components to build the LM curve (1 point)
4. What does the IS curve correspond to? (1 point)
5. Build the IS curve (1 point)
6. What does the AS curve correspond to? Which are the elements required to build it? (1 point)
7. Which components of the AD-AS model define the level of income of an economy in the Keynesian version of the model? Represent graphically the determination of the employment level (2 points)