EI06 - An Introduction to Macro-Economics

Mid-Term Exam

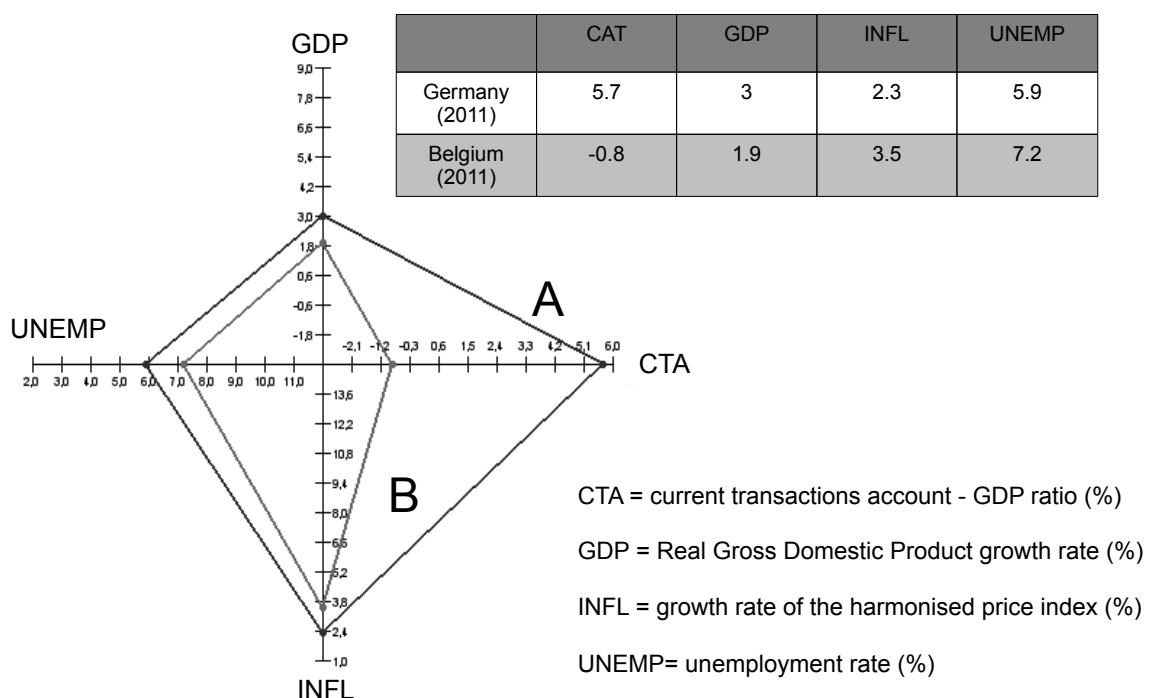*No documents, computers, nor cellular phones are allowed.*
Duration 2 hours

Question 1 *(5 points)*:

Please answer clearly and briefly to the following questions :

1. Name the two elements characterizing a production function according to the Neo-classical production theory (1 point)

2. To which school of though can David Ricardo be assimilated to (1 point)

3. What are the two values of a good according to Adam Smith ? (1 point)

4. How does the Neo-classical consumer choice theory represent consumer tastes, which conditions should be realised ? (1 point)

5. Define the marginal productivity of a production factor ? (1 point)

Question 2 *(5 points)*:

Use the documents below to answer the following questions. Each answer should be justified by calculation and/or elements from the course.

	CAT	GDP	INFL	UNEMP
Germany (2011)	5.7	3	2.3	5.9
Belgium (2011)	-0.8	1.9	3.5	7.2

CTA = current transactions account - GDP ratio (%)

GDP = Real Gross Domestic Product growth rate (%)

INFL = growth rate of the harmonised price index (%)

UNEMP= unemployment rate (%)

1. Name this type of graph. What is it used for ? (1 point)

2. According to the data in the table above which country corresponds respectively to the graph A and graph B ? (1 point)

3. Which Macro-economic equilibrium would be accounted for by the CTA – GDP ratio (1 point)

4. According to this graph, how is the German economy doing in 2011 ? (1 point)

5. According to this graph, how is the Belgian economy doing in 2011 ? (1 point)

Question 2 *(6 points) :*

Use the data available below to answer the following questions. Each answer should be justified by calculation and/or elements from the course.

	GDP	Taxes	Consumption	Investment	Gov. Spendings	Exports	Imports	Labour Productivity	Capital Intensity
2010	5500	500	3000	1800	500	1000	800	1,98	4
2011	5550	500	3030	1950	500	1050	980	2	4

1. Compute the Disposable Income (or Real Available Income) of households in 2010 and 2011 ? (0.5 points)

2. Define and compute the Average Propensity to Consume for 2011. (0.5 points)

3. Recall Keynes' Fundamental Psychology Law. Is this law verified here ? (1 point)

4. Define and compute the Marginal Propensity to Consume for 2011. (1 point)

5. Define and compute the Keynesian multiplier. (1 point)

6. Assume that Firm's investment drop of 100 in the course of the year. Using the multiplier, compute to effect on GDP. Deduce the drop in employment. (1 point)

7. Assume that to compensate this drop in investment, the government increase its spending of 150. Using the answer to the previous question compute the effect on GDP of this policy. How many jobs got saved. (1 point)

Question 4 *(4 points)* **:**

Comment the following table :

	2010-T1	2010-T2	2010-T3	2010-T4	2011-T1	2011-T2
Gross Domestic Product	477,5	481,3	485,2	487,4	494,6	496,6
Imports	126	132,6	137,7	139,1	148,5	147,1
Consumption Spendings	397,3	399,1	402,1	405,1	409,1	409,1
Gross Fixed Capital Formation	91,3	93,1	94	94,6	96,9	97,9
Stocks	-2,1	0,2	1,5	0	5,9	5
Exports	116,9	121,6	125,3	126,8	131,3	131

Billion Euros, France

A. Lorentz