



Spring 2020 – Final Assessment – (20%)

ECON252 – Macroeconomics

Section 03

Name	ID



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SECTION [1] MULTIPLE CHOICE QUESTIONS [20%]

INSTRUCTIONS:

- 1- ANSWER ALL QUESTIONS.**
- 2- EACH QUESTION IS WORTH TWO POINTS.**

- 1) If the Central Bank of Kuwait puts in place a contractionary monetary policy, its decision is based on
 - A) the fact that the economy is at full employment
 - B) Expectation of excessive inflation in the future
 - C) the fact that the economy is in a recession
 - D) excessive working hours
- 2) The multiplier effect on real GDP occurs because
 - A) of income taxes.
 - B) of government stabilization policies.
 - C) changes in price levels affect our willingness to invest, consume, import and export.
 - D) a change in autonomous expenditure causes a much larger change in GDP.
- 3) If the economy is growing below potential real GDP, which of the following would be an appropriate monetary policy to bring the economy back to the macroeconomic equilibrium? An increase in
 - A) the money supply and a decrease in interest rates.
 - B) oil prices.
 - C) money supply.
 - D) government purchases.
- 4) Saving equals
 - A) disposable income minus consumption expenditure.
 - B) consumption expenditure minus disposable income.
 - C) disposable income plus consumption expenditure.
 - D) disposable income minus taxes
- 5) Long-run macroeconomic equilibrium occurs when
 - A) structural and frictional unemployment equals zero.
 - B) output is above potential GDP.
 - C) aggregate demand equals short-run aggregate supply and they intersect at a point on the long-run supply curve.
 - D) aggregate demand equals short-run aggregate supply.
- 6) Monetary policy is defined as changes in _____ and _____ to achieve macroeconomic objectives such as price stability, high rates of economic growth, and high employment.
 - A) taxes; expenditures
 - B) money supply; interest rates;
 - C) taxes; the money supply
 - D) taxes; interest rates



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7) If the multiplier is 5 and investment decrease by \$40, what impact will that have on aggregate expenditure?

- A) decrease by \$180 B) increase by \$180
C) increase by \$30 D) decrease by \$120

8) The level of aggregate supply in the long-run is *not* affected by

- A) changes in technology. B) changes in the number of workers.
C) changes in the capital stock. D) changes in the expected change in income.

9) An increase of the reserve requirements will reduce

- A) consumption spending B) government spending will fall
C) money supply D) wages will increase

10) Long-run macroeconomic equilibrium occurs when

- A) aggregate demand equals short-run aggregate supply.
B) structural and frictional unemployment equals zero.
C) output is above potential GDP.
D) aggregate demand equals short-run aggregate supply and they intersect at a point on the long-run supply curve

Answer Sheet:

	A	B	C	D
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				



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SECTION [2] PROBLEM SOLVING [60%]

INSTRUCTIONS:

- 1- ANSWER ALL QUESTIONS.**
- 2- EACH QUESTION IS WORTH SEVEN AND HALF MARKS WITH TOTAL FIFTEEN MARKS FOR EACH PROBLEM.**

Problem 1 (15%)

Use below questions to fill in the blank cells in the table.

Consumption	GDP
10520	10400
	10600
10840	
11000	11000
	11200
11320	
11480	11600

1) Calculate, MPC and MPS and the multiplier. **Explain** concepts of all of them.

2) If the consumption expenditures increase by 180 mln what will be the new equilibrium.



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Problem 2 (15%)

Year	Actual Real GDP	Potential GDP	Price Level	Unemployment
2017	KD 12.4 billion	KD 12.4 billion	100	4.5 %
2018	KD 10.5 billion	KD 12.4 billion	96	16%
2019	KD 12.7 billion	KD 12.4 billion	105	3%

1. Describe country's macroeconomic condition in these three years in terms of macroeconomic equilibrium and business cycle. Describe all macroeconomic indicators?
2. Use monetary policy to fix the economy in 2019. Discuss interest rate, discount rate, reserve requirements and open market operations.



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Problem 3 (15%)

The below information shows that economy needs corrective actions by the Central Bank, which decided to use monetary policy.

Year	Actual Real GDP	Potential GDP	Price Level
2015	KD 15.6 billion	KD 15.2 billion	104

Answer the below questions:

1. If the Central Bank wants to keep real GDP at its potential level, should it use an expansionary or a contractionary monetary policy?
2. Draw the initial graph and show the change by using the monetary policy

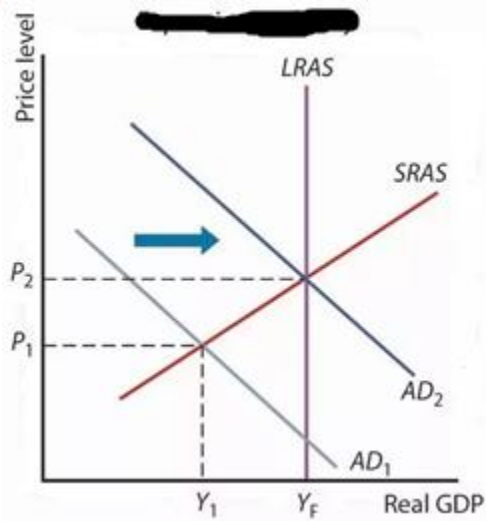


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Problem 4 (15%)

Use the graph below



Answer the below questions:

1. What is the situation in the economy in terms of business cycle?
2. Discuss two factors which can increase AD. Bring the economy back to its potential using Monetary policy



SECTION [3] SHORT ESSAY [20%]

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