

1. Essay (30 points)

DIRECTIONS Answer one (1) of the following questions. The high value of this question should indicate the required level of effort and expected level of detail.

1. What are the key determinants of growth in the neoclassical growth model? What is the predicted effect of an increase in the saving rate in this model? (Illustrate graphically.) Does the “AK” endogenous growth theory offer a different prediction? (Illustrate graphically and discuss.)
2. Describe the classical quantity theory of price determination verbally and algebraically. In what sense does the quantity theory provide an “aggregate demand” curve for the classical theory? Intuitively, why does the aggregate demand curve, according to the quantity theory, slope downward? According to the quantity theory, what is the predicted relationship between the money supply and the inflation rate? (Show this algebraically.) Empirically, how well is this prediction realized? (You may restrict your discussion of this to the US economy.)

2. Multiple Choice Questions (1 pt each)

DIRECTIONS: Answer all multiple choice questions. Pick a single answer for each question: there is one best answer.

1. The equilibrium real wage is 3, the money demand function is $M^d = 3PY^d$, the total stock of money is \$12, and 4 units of output are produced in equilibrium. The equilibrium nominal wage rate is
 - (a) \$2
 - (b) \$2.75
 - (c) \$3
 - (d) \$3.50
 - (e) none of the above
2. The US household saving rate fell below zero in 2000. The Economic Report of the President 2001 says we should conclude that
 - (a) households saving is dangerously low.
 - (b) the lack of household saving will depress US growth.
 - (c) government saving is much more important.
 - (d) business saving is much more important.
 - (e) the national income accounts neglect household saving in the form of capital gains.
3. The Economic Report of the President (2001) estimated the current account deficit for 2000 at \$360B. It describes this situation as
 - (a) benignly reflectly strengths of the US economy.
 - (b) a crisis in the making.
 - (c) due to very weak export growth.
 - (d) a consequence of US fiscal profligacy.
 - (e) none of the above.