Econ 305 | Prof. Kasa
Intermediate Macroeconomic Theory | Fall 2008

SAMPLE MIDTERM QUESTIONS

Answer the following questions True, False, or Uncertain. Briefly explain your answers. No credit without explanation.

1. In the Solow model, capital accumulation cannot explain growth.
2. The Solow model predicts that in the long-run all countries will converge to the same level of per capita income.
3. Inflation means that increases in real GDP are less than increases in nominal GDP.
4. Government policy should always attempt to achieve a savings rate consistent with the Golden Rule.
5. According to the Fisher equation, nominal interest rates always exceed expected inflation.
6. GDP sums up the dollar value of all transactions that take place within an economy during a given period of time.
7. In a small open economy, expansionary fiscal policy causes an appreciation of the exchange rate, which 'crowds-out' net exports.
8. We know from National Income Accounting that government budget deficits cause trade deficits.
9. Given the Cobb-Douglas production function, $Y = K^{\alpha}L^{1-\alpha}$, we know that the share of wages in national income is $(1-\alpha)\cdot L$.
10. A law making it hard to fire workers could actually increase the economy's average unemployment rate.

    The following questions are short answer. Briefly explain your answer. Clarity will be rewarded.

11. Reconcile the following two observed empirical facts concerning the growth process. (1) Labor's share in national income is relatively constant, and (2) The capital/labor ratio rises over time.
12. In the country of Bedrock, the velocity of money is constant. Real GDP grows by 5% per year, the money supply grows by 14% per year, and the nominal interest rate is 11%. What is the real interest rate?
13. Suppose the (per capita) production function is $y = \sqrt{k}$. Solve for the steady-state value of y as a function of s, n, g, and δ.