

## Review Seminar

### Section A

1. Suppose that population and aggregate output in Europia are both growing at a rate of 2 per cent per year. Using the Solow growth model, is there a role for investment in explaining Europia's economic growth? [Tripos 2016]
2. Using aggregate supply-aggregate demand analysis, explain the potential macro-economic consequences of the following: [Tripos 2016]
  - (a) A reduction in the marginal propensity to consume.
  - (b) Rapid growth in online retailing.
3. Describe a set of circumstances in which an increase in expected inflation would have an impact on equilibrium outcomes in the IS-MP model, holding current inflation constant. [Tripos 2016]
4. Explain the effect of the following on the equilibrium government spending multiplier in a closed economy with fixed prices: [Tripos 2015]
  - (a) A reduction in unemployment insurance.
  - (b) A decision by the central bank to react more aggressively to the output gap.
5. Describe the long run implications of the following for the trade balance and real exchange rate of a small open economy: [Tripos 2015]
  - (a) A reduction in the world real interest rate.
  - (b) A tax rise.
6. The government of an economy decides to cut down on defence spending. What is the effect of such a policy on the real interest rate, investment, net capital outflows and real exchange rate in the long run when [Tripos 2014]
  - (a) The economy is closed.
  - (b) The economy is small and open.
7. Discuss briefly the possible long run effects of quantitative easing. [Tripos 2014]

8. Consider a closed economy in the short run with fixed prices and interest rate. The marginal propensity to consume is 0.8 and the income tax is 0.3. Government spending is 30 and the government budget is in balance. If the government decides on a tax-financed increase in spending of 10, by how much does GDP increase? By how much does the income tax rate change? Give an intuitive explanation of your results. [Tripos 2011]
9. What happens to the steady state capital-labour ratio, output per worker and consumption per worker if technological progress slows down? [Tripos 2008]
10. Suppose that disposable income is  $Y - T + uY$ , where  $Y$  is gross income,  $T$  is an income-independent tax and  $u$  is a subsidy rate. Assume that all prices are fixed, that the economy is closed and that  $0 < u < (1 - c)/c$ , where  $c$  is the marginal propensity to consume. Calculate the multiplier associated with an increase in defence expenditure and explain why it is larger than one. [Tripos 2006]
11. Consider a closed economy, where a monetary expansion takes place. Is the impact on the short-run GDP larger when the demand for real money balances depends upon or is independent of the interest rate? Explain. [Tripos 2006]
12. In a closed economy with a fixed interest rate and a fixed price level, where the marginal propensity to consume is  $1/2$  and the tax rate is  $1/4$ , calculate how large a reduction in the income-independent part of the tax schedule is required to increase aggregate output by 10 units. Interpret the results. Would the required reduction be larger or smaller if the interest rate is variable? [Tripos 2005]