MID-#2, ECO 2142 B, F13

	V/T	F			
1	A	●	C	D	E
2	A	●	C	D	E
3	A	B	●	D	E
4	A	B	●	D	E
5	A	B	●	D	E
6	A	B	●	D	E
7	A	●	C	D	E
8	A	B	●	D	E
9	●	B	C	D	E
10	A	B	C	●	E
11	A	●	C	D	E
12	A	B	●	D	E
13	A	B	●	D	E
14	●	B	C	D	E
15	A	B	C	●	E
16	A	●	C	D	E
17	A	●	C	D	E
18	A	●	C	D	E
19	A	●	C	D	E
20	A	●	C	D	E
21	●	B	C	D	E
22	●	B	C	D	E
23	A	●	C	D	E
24	A	B	●	D	E
25	A	B	●	D	E
26	●	B	C	D	E
27	A	B	C	●	E
28	●	B	C	D	E
29	A	B	●	D	E
30	●	B	C	D	E
31	A	●	C	D	E
32	A	B	●	D	E
33	A	●	C	D	E
34	A	B	C	D	E
35	A	B	C	D	E
36	A	B	C	D	E
37	A	B	C	D	E
38	A	B	C	D	E
39	A	B	C	D	E
40	A	B	C	D	E
41	A	B	C	D	E
42	A	B	C	D	E
43	A	B	C	D	E
44	A	B	C	D	E
45	A	B	C	D	E
46	A	B	C	D	E
47	A	B	C	D	E
48	A	B	C	D	E
49	A	B	C	D	E
50	A	B	C	D	E
51	A	B	C	D	E
52	A	B	C	D	E
53	A	B	C	D	E
54	A	B	C	D	E
55	A	B	C	D	E
56	A	B	C	D	E
57	A	B	C	D	E
58	A	B	C	D	E
59	A	B	C	D	E
60	A	B	C	D	E

	V/T	F			
61	A	B	C	D	E
62	A	B	C	D	E
63	A	B	C	D	E
64	A	B	C	D	E
65	A	B	C	D	E
66	A	B	C	D	E
67	A	B	C	D	E
68	A	B	C	D	E
69	A	B	C	D	E
70	A	B	C	D	E
71	A	B	C	D	E
72	A	B	C	D	E
73	A	B	C	D	E
74	A	B	C	D	E
75	A	B	C	D	E
76	A	B	C	D	E
77	A	B	C	D	E
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115	A	B	C	D	E
116	A	B	C	D	E
117	A	B	C	D	E
118	A	B	C	D	E
119	A	B	C	D	E
120	A	B	C	D	E

	V/T	F			
121	A	B	C	D	E
122	A	B	C	D	E
123	A	B	C	D	E
124	A	B	C	D	E
125	A	B	C	D	E
126	A	B	C	D	E
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128	A	B	C	D	E
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130	A	B	C	D	E
131	A	B	C	D	E
132	A	B	C	D	E
133	A	B	C	D	E
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173	A	B	C	D	E
174	A	B	C	D	E
175	A	B	C	D	E
176	A	B	C	D	E
177	A	B	C	D	E
178	A	B	C	D	E
179	A	B	C	D	E
180	A	B	C	D	E

University of Ottawa **ECO2142 B** Name________________________
Midterm # 2 (November 18, 2013) Student number________________

Short-Answer Questions (34 points)
Answer in the space provided

34. (9 points) Consider the economy of Hypothermia :

$$C = 100 + 0.6\,(Y - T)$$
$$I = 100$$
$$G = 100$$
$$T = 100$$

A) What is the goverment's surplus (deficit)?

2

Govt. deficit / surplus = $T - G = 0$

B) What is equilibrium output?

3

$Y = C + I + G$
$= 100 + 0.6(Y - 100) + 200$
$0.4Y = 300 - 60$
$0.4Y = 240$
$\boxed{Y = 600}$

C) Suggest a fiscal policy that would increase output by 100.

4

$\uparrow G$

$\Delta Y = \dfrac{\Delta G}{1 - MPC}$

$\Rightarrow \Delta G = 100\,(1 - 0.6)$

$\boxed{\Delta G = 40}$

or

$\downarrow T$

$\Delta Y = -\dfrac{MPC\,\Delta T}{1 - MPC}$

$\Rightarrow \Delta T = \dfrac{-(0.4)\,100}{0.6}$

$\boxed{\Delta T = -66.67}$

one or the other

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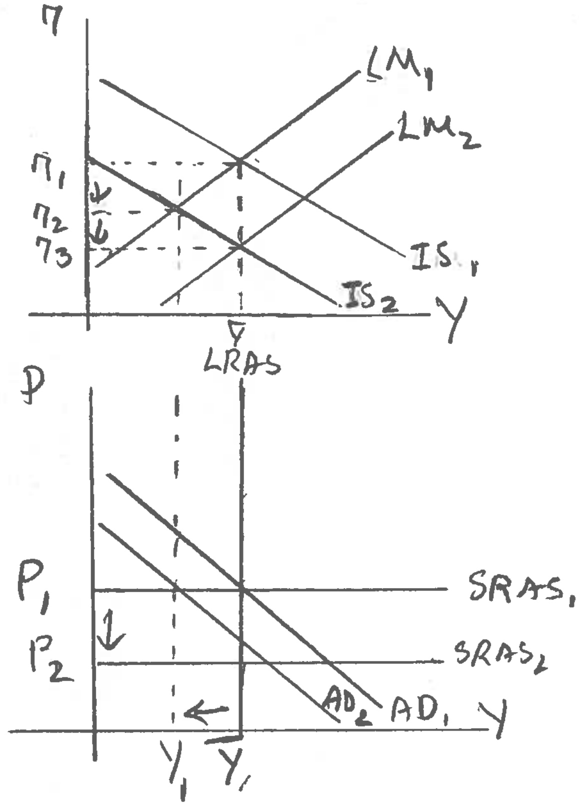
35. (25 points) Suppose that the economy starts at full-employment equilibrium.

A) Illustrate this situation using *IS-LM* and *AS-AD* graphs.



3 for correct starting equilibrium

consumption

B) Next, using these graphs, explains the short-run and long-run equilibrium effects of a stock market crash on interest rates, investment, the price level and output. Assume no intervention by the government or the central bank.

Assume that consumption is a function of wealth

Short run:
Stock market crash ⇒ ↓C
⇒ IS curve shifts down
⇒ AD curve shifts left
⇒ r↓, I↑, ΔP = 0, Y↓

6

Long run
P↓ ⇒ LM curve shifts right
⇒ r↓, I↑ and Y returns to full employment level but C remains lower

6

C) Next, examine compared to the starting equilibrium, the short-run and long-run impacts on interest rates, investment, the price level and output of fiscal and monetary policies that policymakers could follow to stabilize output.

1 points
.25
(each)

		Proposed fiscal policy: ↑G (or ↓T) (3 points)	**proposed monetary policy:** ↑M (3 points)
Impacts on r	*Short term:*	0	↓
	Long term:	0	0
Impacts on I	*Short term:*	0	↑
	Long term:	0	0
Impacts on P	*Short term:*	0	0
	Long term:	0	0
Impacts on Y	*Short term:*	0	0
	Long term:	0	0