

Answers to Final Exam

- A.
- (1) True. This means that the quantity demanded of X rises if the price of Y rises.
 - (2) False. Average cost can be rising or falling, depending on whether $MC >$ or $<$ AC .
 - (3) False. Low demand relative to firm scale.
 - (4) False. Price equals average cost.
 - (5) True. This is the same as producers' surplus.
 - (6) False. It is equal in the base year and can be greater or less otherwise (depending on whether there is deflation or inflation).
 - (7) True. During this period the unemployment-inflation tradeoff is relatively stable.
 - (8) True. Otherwise arbitrage would make it so.
- B.
- (1) physical capital, human capital, and technological change
 - (2) residential investment, business capital investment, inventories
 - (3) taxes, transfers, government spending
 - (4) deficit is one year's $G - T$; natl debt is the accumulation of the past federal deficits
 - (5) medium of exchange, store of value, and unit of account
 - (6) reserve ratio requirements, the discount rate, and open market operations
 - (7) velocity, the number of times a unit of money turns over
 - (8) 25%; 4
- C.
- (1) d (2) b (3) b (4) b (5) c
 - (6) b (7) c (8) c (9) d (10) a

- D. (1) standard diagram
(2) D shifts to right, P and Q increase
(3) higher (nonequilibrium) price; quantity supplied > quantity demanded
(4) worse; bigger surplus now
- E. (1) 2400
(2) 5
(3) 2450
(4) 2410
- F. (1) and (2) As in Figure 26-6 on p. 559, the economy is first at point F, then point E.
(3) The price level falls (there is deflation) and real GDP rises.
(4) The economy moves back to point F as wages rise and the SRAS shifts back up.
- G. (1) and (2) opposite of Figure 34-4 on p. 712
(3) Like Figure 34-7 on p. 716.
(4) The country is increasing its reserves of foreign currency; need to revalue