

**INSTRUCTIONS:**

1. Answer ONLY the specified number of questions from the options provided in each section. Do not answer more than the required number of questions. Each section takes one hour.
2. Your answers must be on the paper provided. No more than one answer per page. Do not answer two questions on the same sheet of paper.
3. If you use more than one sheet of paper for a question, write "Page 1 of 2" and "Page 2 of 2."
4. Write ONLY on one side of each sheet. Use only pen. Answers in pencil will be disqualified.
5. Write ----- **END** ----- at the end of each answer.
6. Write your exam identification number in the upper right-hand corner of each sheet of paper.
7. Write the question number in the upper right-hand corner of each sheet of paper.

**Section 2: Macroeconomics and Monetary Theory—Answer One Question.**

**2A.** (Econ 202) Answer all of the following parts completely. Be specific. Each part should have no more than two or three sentences plus any graph, if needed.

- a) Draw a *dynamic* aggregate demand-aggregate supply (AD-AS) diagram correctly identifying both axes and all the curves.
- b) In one sentence, describe what is the difference between the static and the dynamic version of the AD-AS model (noting that one is static and one is dynamic is NOT a correct answer).
- c) What explains the slope of the aggregate demand curve in the AS-AD model (consider how the AD curve is derived)?
- d) Identify what can cause shifts in the aggregate demand curve. What factors do Monetarists economists emphasize? What factor do traditional, orthodox Keynesians emphasize?
- e) How would the pre-Keynesian classical economists have drawn the aggregate supply curve(s)? (You may describe it or draw it on a separate graph.) Explain why they would have drawn the curve this way.

- f) How would a traditional, orthodox Keynesians have drawn the aggregate supply curve(s)? (Again, you may describe it or draw it on a separate graph.) Explain why.
- g) Show on a diagram similar to the one you drew for part (a) how a permanent increase in the demand for money in the short run and long run.

**2B.** (Econ 235) Analyze the demand for money by answering all of the following. Each part should have no more than two or three sentences plus any graph, if needed.

- a) Describe in words how changes in the demand for money affect the purchasing power of money, the price level, and real cash balances. Explain why this makes money like any other good or service.
- b) Draw a supply and demand graph for money correctly labeling all axes and curves. Why does the money demand curve have that shape? How you would depict real cash-balances on the graph?
- c) Describe the modern quantity theory of money.
- d) How are the demand for money and the concept of velocity in the equation of exchange related? What does this tell us about the impact of changes in demand for money on other macroeconomic variables? (note: noting that algebraically one variable changes means that at least one other must change is not an adequate answer).
- e) Describe how the demand for money behaves during hyperinflations and why.
- f) What do economists mean when they say a change in the money stock is neutral?

(over)

