

Name \_\_\_\_\_

**Econ 201 Final Exam**

**You will be graded on both correctness and style in answering. I do not want paragraphs of words, you should be drawing graphs, doing math, and providing the required numerical answers. Make sure to provide graphs that are correctly labeled where applicable. This exam should be individual effort only. You are allowed to use your notes, book, video lectures and PowerPoints on canvas, but you are not allowed to use anything or anyone else. If you have the same answer that is on Chegg you will receive a 0 and this will be considered a violation of EWU's Academic Integrity. If anyone asks you for help on the exam feel free to let me know so you can benefit, and they can...**

1. Use the following information about the labor market:

Labor Market and Production:

$$W = 11 - N$$

$$W = 1 + N$$

$$Y = A \cdot K^{.5} \cdot N^{.5}$$

Goods Market:

$$C = 5 + 0.5(Y - T)$$

$$I = 15 - 50r$$

$$T = 10$$

$$G = 5$$

Asset Market:

$$MS = 25/P; \text{ assume that the } P=1 \text{ initially}$$

$$MD = Y - 50r$$

- a. Suppose that the current capital-labor ratio is 1 (the amount of capital exactly equals the number of workers) and that the total factor productivity (A) equals 6. What is the equilibrium wage, employment level, and the full employment level of output? Draw this all graphically and make sure to label the graph.
- b. Use the information from part a along with the goods market and the asset market information. What are the initial general equilibrium interest rate, output, and price? Draw this graphically under the Keynesian assumptions. Include both the IS/LM/FE and the AD/AS models making sure to completely label the graphs.
- c. Suppose that there is a collapse in consumer confidence that decreases consumption by 5 units. What are the Short Run and Long Run values for the interest rate, output, and price? Draw this graphically under the Keynesian assumptions. Include both the IS/LM/FE and the AD/AS models making sure to completely label the graphs. This can be done on the previous graphs.
- d. Suppose when the economy is in the Short Run equilibrium and the Federal Reserve wanted to conduct stabilization policy. What policy would they conduct? How large would this policy have to be? Draw this graphically under the Keynesian assumptions. Include both the IS/LM/FE and the AD/AS models making sure to completely label the graphs. This should be done on a new graph.
- e. Suppose when the economy is in the Short Run equilibrium and the Government wanted to conduct stabilization policy. What are the 3 policies they can do? How large would each policy have to be? Draw this graphically under the Keynesian assumptions. Include both the IS/LM/FE and the AD/AS models making sure to completely label the graphs. This should be done on a new graph.