

Sample Questions for the Midterm

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Future

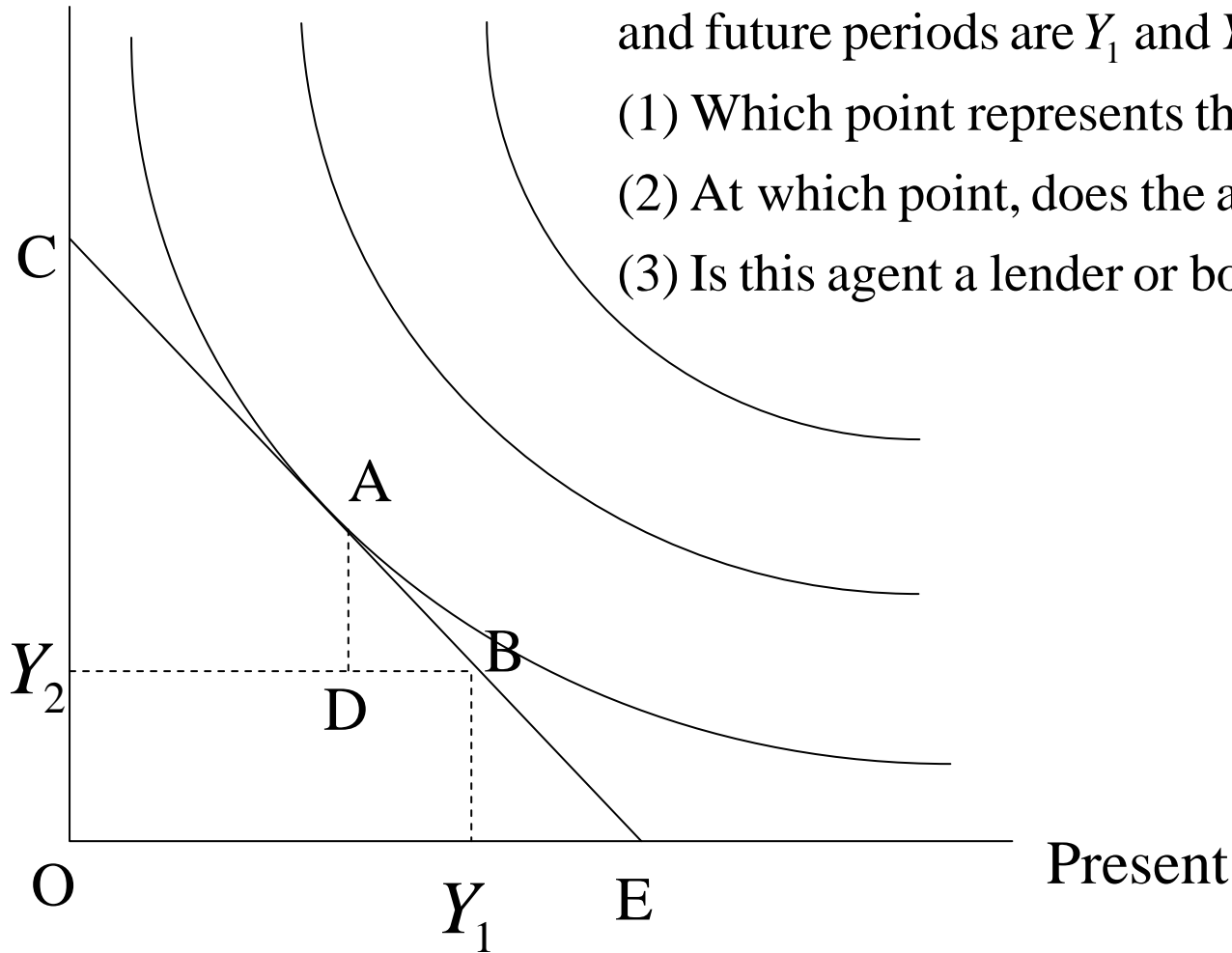
Q1: The income for the present

and future periods are Y_1 and Y_2 , respectively.

(1) Which point represents the income combination?

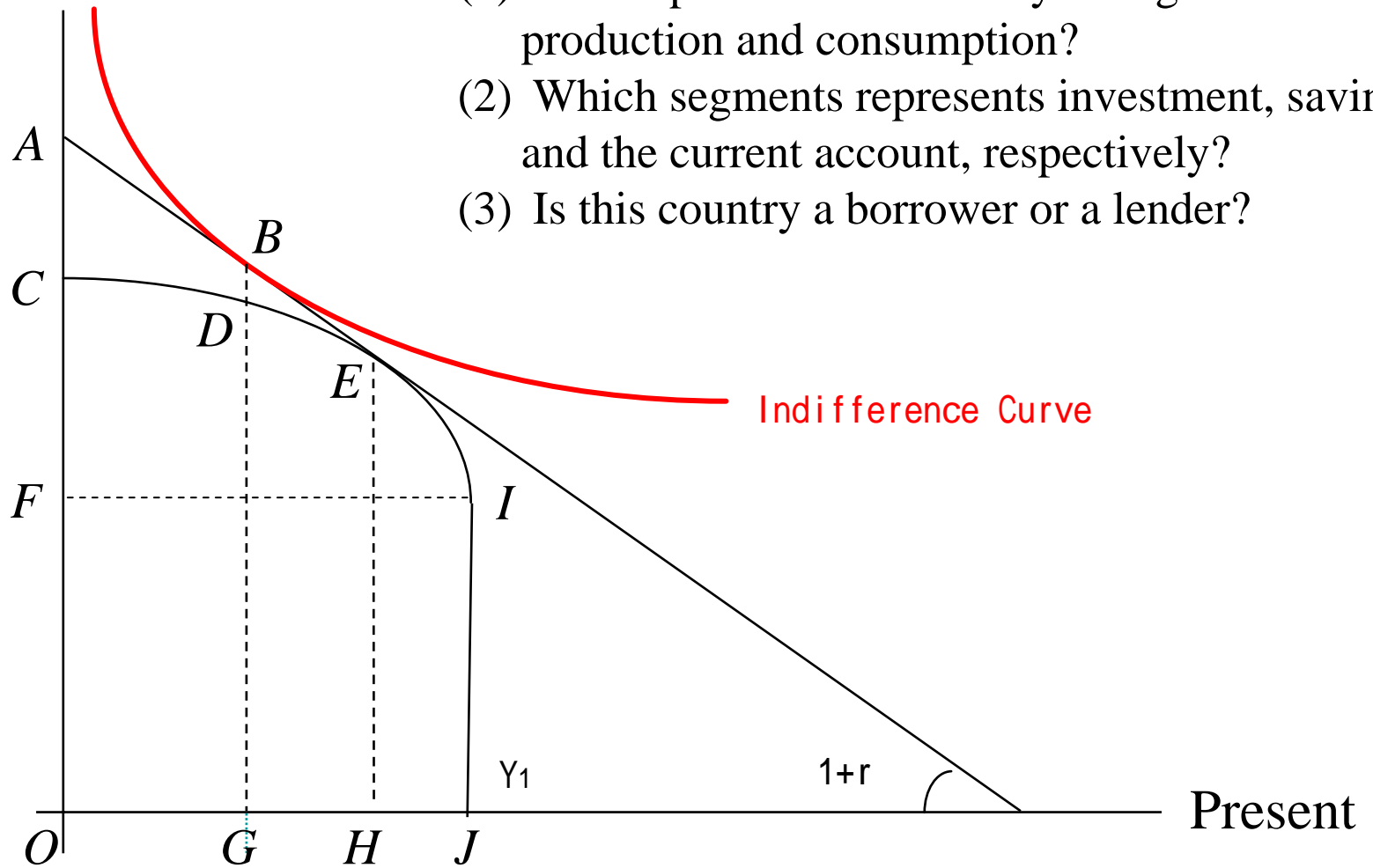
(2) At which point, does the agent consume?

(3) Is this agent a lender or borrower?



Q2: The income combination without investment is given at I .

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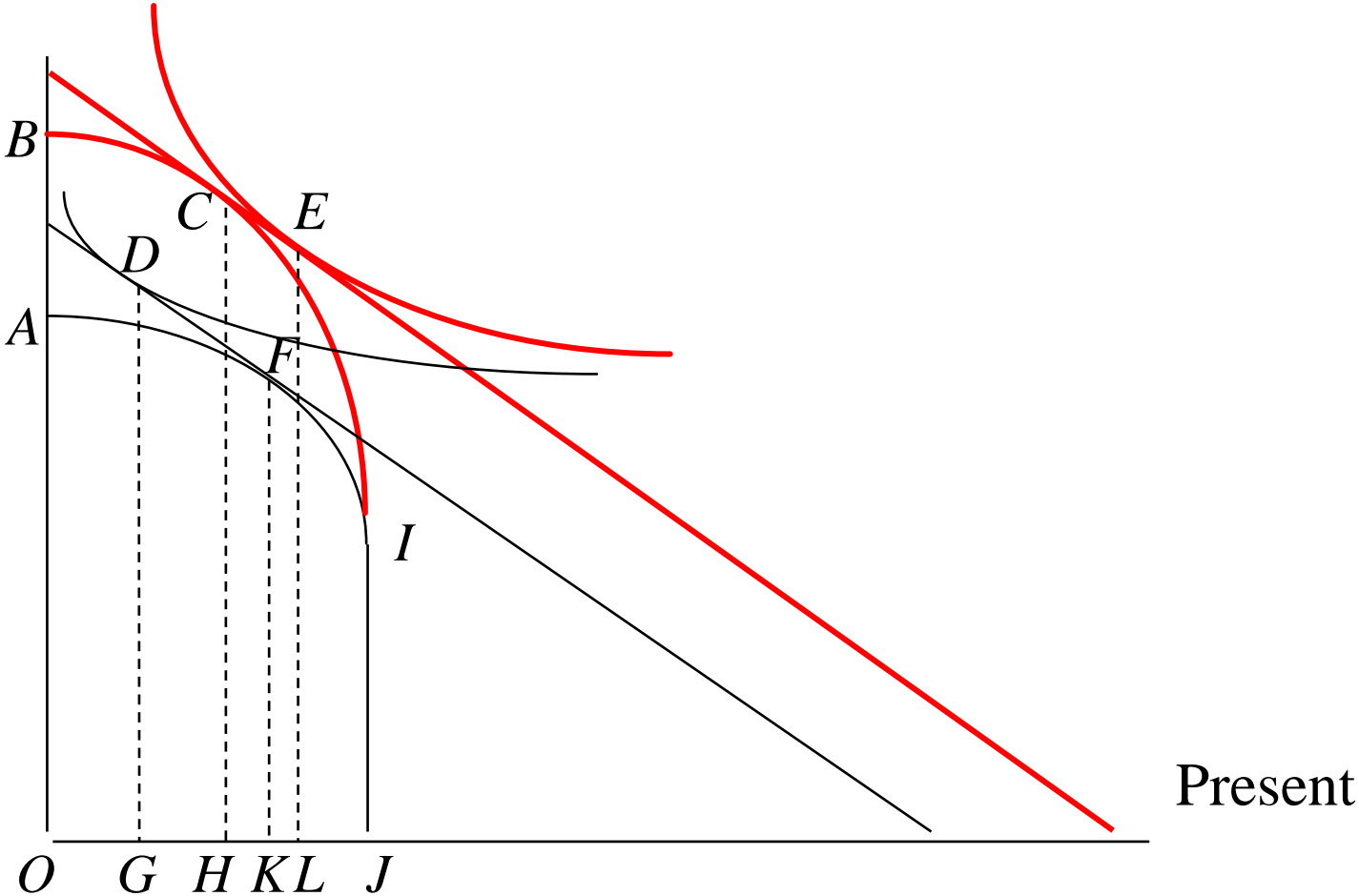


- (1) Which points are chosen by the agent for production and consumption?
- (2) Which segments represents investment, saving, and the current account, respectively?
- (3) Is this country a borrower or a lender?

Q3: Investment

- The initial income pattern is given by point *I*. A technological progress is represented by a shift of the investment possibility frontier from *AI* to *BI*.
- 1. Which points represent the investment and consumption *before* the technological progress?
- 2. Which points represent the investment and consumption *after* the technological progress?
- 3. Which segments represent the current accounts *before* and *after* the technological progress? Are they deficit or surplus?

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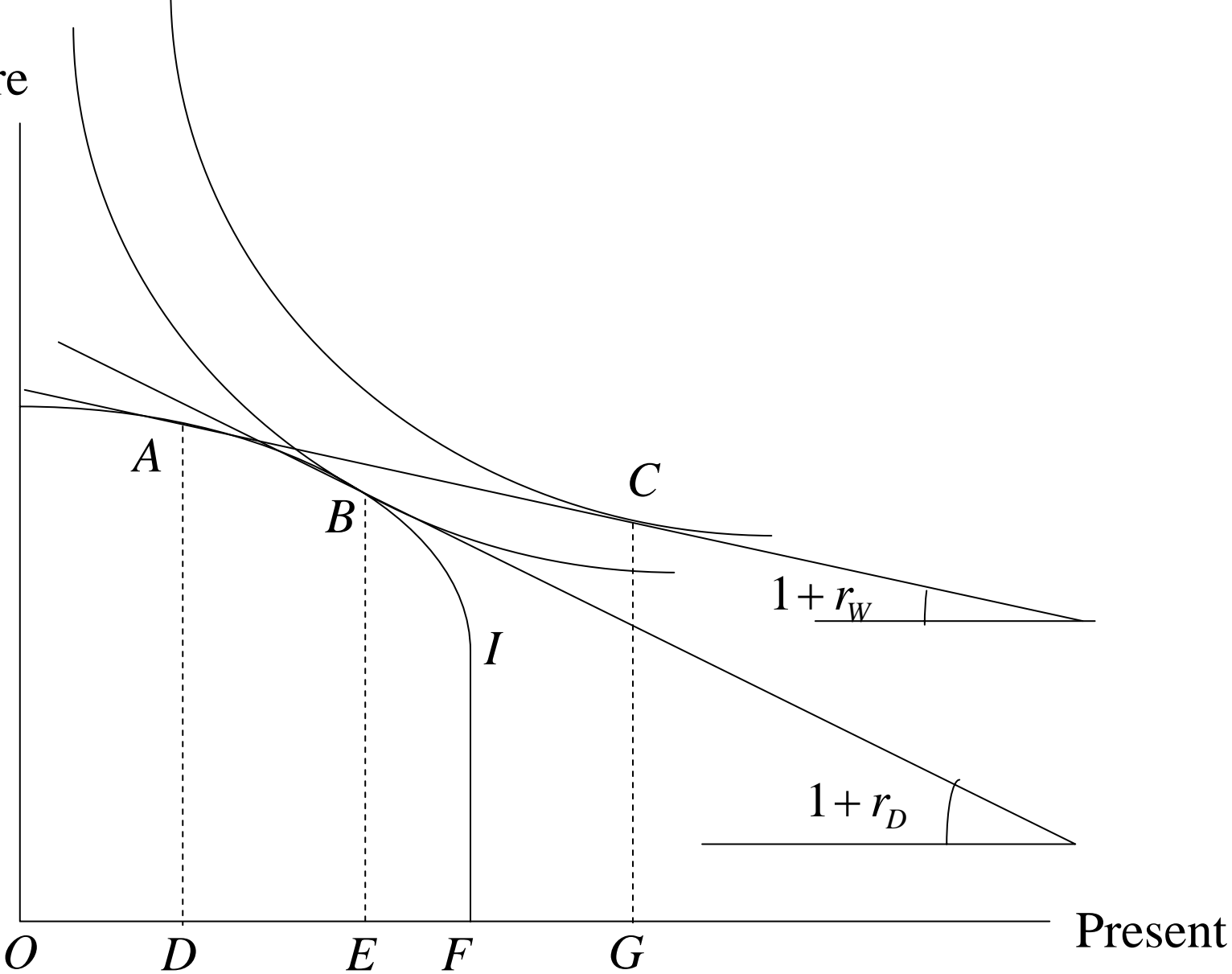


Present

Q4: Autarchy and Open Economy

- A developing country deregulates international capital flows and creates incentives for international investors to invest in this country. The interest rate goes down from r_D to r_W after the deregulation.
 1. What are the initial points of investment and consumption?
 2. What are the investment and consumption points after the change?
 3. Which segment represents the current account after the deregulation? Is it a surplus or deficit?
 4. This model can be considered to be a good framework to explain the booms in East Asia countries before the currency crisis of 1997 & 98. Why?

Future



Q5: Technological Progress and Current Accounts

Consider the effect of a technological progress in US on Japan.

1. Draw an appropriate figure to illustrate this situation.
2. What are the effects on the current accounts and the world interest rate?
3. What are the effects on the growth rates on Japan and US?

Q6: Government and Capital Flows

1. What is the Ricardian Equivalence?
2. If the US government increases its expenditure, what will happen to the current accounts of US and Japan, and the world interest rate?
3. What are the effects of Japan's bubble economy in late 1980s on the capital flow between Japan and US?
4. Discuss freely on the economic consequences of the Reaganomics.

Q7: Competition and Welfare

1. Consider a monopoly market where the monopoly firm sets the price at B. Which area represent the consumer surplus, the producer surplus, the monopoly rents, and the dead weight loss, respectively?
2. It is considered that consumption tax should be levied not on luxury goods, but on essential goods. Why? Draw an appropriate figure to illustrate your answer.

A Monopolistic Market

