



Monmouth
COLLEGE

• Name: _____

• Date: _____

ECON 301 Intermediate Macroeconomics

Final Exam

Spring 2025

INSTRUCTIONS:

- Please read all questions carefully before you begin answering.
- Answer all questions in the spaces provided on the question sheet.
- This quiz consists of 9 pages, including this one.
- There are a total of 5 problems with a total of 18 subquestions.
- This is a closed-book exam. Please remove all materials from the top of the desk and take any necessary items from your bags before the exam begins.

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Problem 1. Definitions**(4 Points Each)**

Select FIVE items on the list of items below, and provide a definition of the items that you chose.

- Real Interest Rate
- Required Reserve Ratio
- Marginal Propensity to Consume
- Potential Output
- Labor Force
- Gross Domestic Product
- Net Exports
- Monetary Policy
- Golden Rule Saving Rate

1.A. Item #1: _____

1.B. Item #2: _____

1.C. Item #3: _____

Problem 1. Definitions (Continued)**(4 Points Each)**

Select FIVE items on the list of items below, and provide a definition of the items that you chose.

- Real Interest Rate
- Required Reserve Ratio
- Marginal Propensity to Consume
- Potential Output
- Labor Force
- Gross Domestic Product
- Net Exports
- Monetary Policy
- Golden Rule Saving Rate

1.D. Item #4: _____

1.E. Item #5: _____

Problem 2. True / False**(4 Points Each)**

Determine whether the following statements are either TRUE or FALSE. If you deem that the statement is TRUE, there is no need to justify your answer. If you deem that the statement is FALSE, you MUST justify your verdict by providing an explanation.

- 2.A. Open market purchases conducted by the Federal Reserve (Central Bank) are expected to result in an increase in the economy's interest rate.
- 2.B. In the long run, the growth rate of output per capita is primarily driven by technological progress.
- 2.C. An increase in consumers' marginal propensity to consume will lead to a decrease in the economy's equilibrium output.

Problem 2. True / False (Continued)**(4 Points Each)**

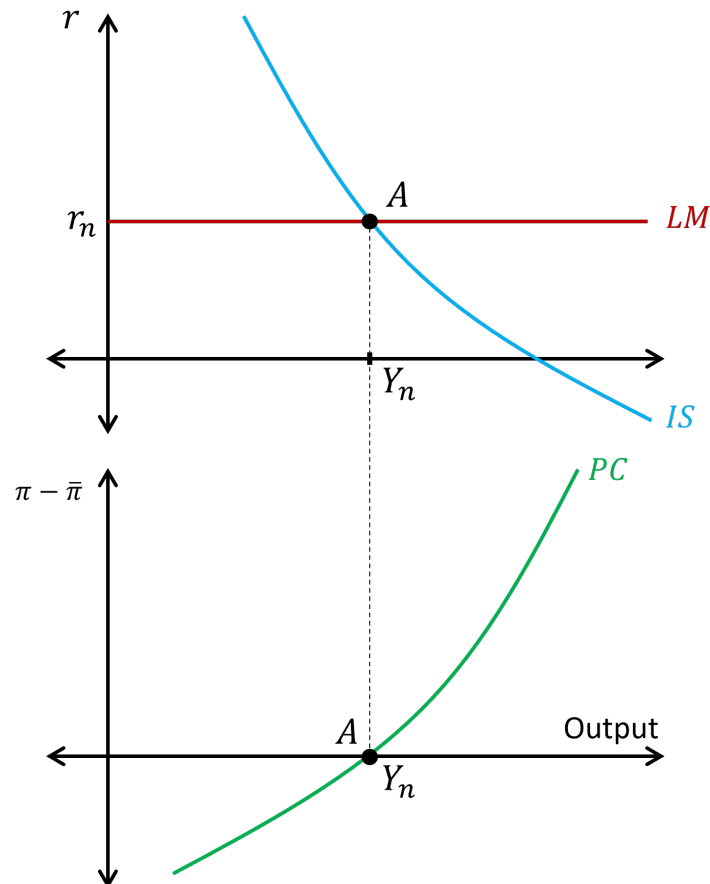
Determine whether the following statements are either TRUE or FALSE. If you deem that the statement is TRUE, there is no need to justify your answer. If you deem that the statement is FALSE, you MUST justify your verdict by providing an explanation.

2.D. If a country's CPI was 100 in 2023 and increased to 105 in 2024, we can conclude that the economy experienced 3% inflation over the year.

2.E. If commercial banks' risk tolerance increases (i.e., they become more willing to take risks), the economy's output is expected to increase.

Problem 3. The IS-LM-PC Framework**(8 Points Each)**

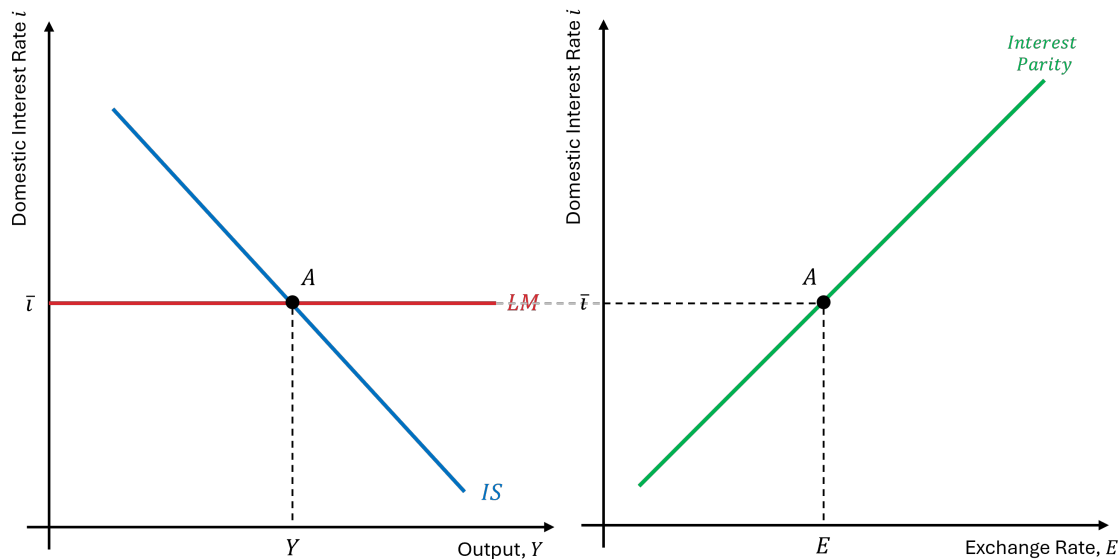
Suppose that a closed economy is operating at its medium-run equilibrium labelled point A .



- 3.A. Suppose Congress passes legislation that strengthens workers' employment protection. Illustrate the predicted change in the diagram above, and label the new equilibrium point B .
- 3.B. In response to 3.A, the Fed is concerned that output will not match the potential output. Illustrate the Fed's predicted response in the diagram above, and label the new equilibrium point C .
- 3.C. If the Fed had not acted as described in 3.B, the government would have intervened. In your own words, explain what policies the government could have implemented in response.

Problem 4. The Open Economy**(8 Points Each)**

Suppose an open economy is operating at point A . Further suppose that the inflation rate is observed to be higher than the Federal Reserve's target, prompting the Fed to conduct contractionary monetary policy to combat inflation.



- 4.A. Illustrate and label the new equilibrium in the graph above, including any changes in the IS, LM, or interest parity curves following the Fed's policy implementation.
- 4.B. In your own words, explain any changes in the domestic currency's exchange rate, E , resulting from the Fed's policy implementation.
- 4.C. Based on your answer to 4.B, predict and justify any changes to this economy's net exports.

Problem 5. Open Ended Questions**(6 Points Each)**

Using theory, graphical analysis, or real-world observations, evaluate the following statements.

5.A. The operations of the Federal Reserve and the government should remain independent of one another.

5.B. The Federal Reserve should fully commit to maintaining inflation at its target rate, even above other economic indicators.

• Original Score: _____

• Recovered Score: _____

• Original Date: _____

• Recovered Date: _____